Central Intelligence Agency

Washington, D.C. 20505

30 June 2023

Emma Best
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DEPT MR 51314
263 Huntington Avenue
Boston, MA 02115

Reference: F-2018-01193

Dear Requester:

This letter is a final response to your 17 March 2018 Freedom of Information Act (FOIA) request for **a copy of the three-volume history of Development of Economic Intelligence in the Office of Research and Reports, approved by Maurice C. Ernst, Director of Economic Research.** We processed your request in accordance with the FOIA (5 U.S.C. § 552, as amended, and the CIA Information Act, 50 U.S.C. § 3141, as amended).

We completed a thorough search for records responsive to your request and located the enclosed three documents, which we determined can be released in segregable form with deletions made on the basis of FOIA exemptions (b)(1), (b)(3), and/or (b)(6). Exemption (b)(3) pertains to information exempt from disclosure by statute. The relevant statutes are Section 6 of the Central Intelligence Agency Act of 1949, as amended, and Section 102A(i)(l) of the National Security Act of 1947, as amended.

As the Information and Privacy Coordinator, I am the CIA official responsible for this determination. You have the right to appeal this response to the Agency Release Panel, in my care, within 90 days from the date of this letter. Please explain the basis for your appeal.

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Sincerely,

Anthony Capitos
Information and Privacy Coordinator

Enclosures

~~Secret~~ (b)(3)

[redacted]

DEVELOPMENT OF ECONOMIC INTELLIGENCE: OFFICE OF RESEARCH AND REPORTS

VOLUME I

1950 - 1960

by

(b)(3)
(b)(6)

[redacted]

~~Secret~~

OER 1
September 1973
Copy 5 of 5

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(b)(3)

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SENSITIVE INTELLIGENCE SOURCES
AND METHODS INVOLVED

[redacted] (b)(3)

DEVELOPMENT OF ECONOMIC INTELLIGENCE: OFFICE OF RESEARCH AND REPORTS

VOLUME I

1950 - 1960

by

[redacted] (b)(3) (b)(6)

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Foreword

Volume I of this history details the genesis and early development of economic intelligence in the Central Intelligence Agency, covering roughly the decade of the 1950's. The turn of that decade -- in part because of the election of 1960 and advent of the Kennedy Administration -- marked a turning point in the scope and purpose of the economic intelligence mission. During the 1950's the Office of Research and Reports (ORR) undertook a massive assault on the economies of what was initially known as the "Soviet Orbit," and later the "Sino-Soviet Bloc." That these terms had to be abandoned in the early 1960's was, of course, caused by the crumbling of the monolithic image presented by World Communism in the 1950's. This was, however, only a part of the reason for the change in the Office's mission. Events in the developing "Third World" and in Western Europe in the 1960's increasingly engaged the attention of the nation's policymakers and led to mounting demands from them for economic interpretations and analysis. The existence in CIA of a large stable of economists trained to do such interpretations

and analysis made it inevitable that the Agency would be called upon to broaden its mission. Volume II of this history is a record of this broadening.

Volumes I and II do not, however, attempt to be a full-scale history of the Office of Research and Reports (ORR). During its 17 year existence (13 November 1950 to 1 July 1967), the Office underwent an amoeba-like division of responsibilities and functions. The functions that were separated formed the working rationale of several successor Offices, each of which had its own period of development within ORR, presumably contained in the written histories of those Offices. The volumes, therefore, concentrate on the economic intelligence function from the time that it became the dominant function of the new Office, itself an offshoot of the old Office of Reports and Estimates (ORE), until its demise and rebirth as the Office of Economic Research (OER).

Volume III covers the creation of OER and its first five years of existence (1 July 1967 to 30 June 1972). The continued growth of the policy support function in this period was marked by a

growing recognition that economic intelligence was more than an arm of national security. It could also serve the needs of national economic policy. Thus Volume III details OER's contributions -- not only on the "adversary" nations of the Communist World and on the allied and neutral nations of the Free World as they affect US security interests -- but also on all countries and international groupings in a world of increasing economic interdependence in which the US finds new challenges and new competition to its economic position and faces adjustment to a less dominant role in the international economic arena.

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Chapter I

ECONOMIC INTELLIGENCE IN THE OFFICE OF REPORTS AND ESTIMATES

"There was, simply, nobody in command of ORE ... it existed as a bureaucracy without a defined mission, and by virtue of its mere existence, busied itself with grinding out an enormous volume of generally worthless paper."

[redacted] (b)(3) (b)(6)

"My principal contribution to CIA was ridding it of the Office of Reports and Estimates."

-William H. Jackson, DDCI

CHAPTER I

Economic Intelligence in the Office of Reports and Estimates

Prior to the establishment of the Office of Research and Reports (ORR) in November 1950, economic intelligence as a CIA function enjoyed a capricious existence and an uncertain future. The checkered career of ORR's predecessor office, the Office of Reports and Estimates (ORE), is discussed in detail in earlier Agency histories, but they have surprisingly little to say about economic intelligence in the early period.1/* Jackson [redacted] although they state that the importance of economic intelligence was not unrealized prior to 1951, 2/ later admit that:

> it was probably true that the organization for economic intelligence in the Office of Research and Estimates neither answered the coordination problem, nor contributed very importantly to useful economic estimates during its four years of experimentation. 3/

(b)(3)
(b)(6)

[redacted]

(b)(1)
(b)(3)

and also that "[The Office's] concern with production in the economic intelligence field had been marginal with respect to other studies of higher priority." 4/

A. Organization

1. The Economics Group

The Office of Reports and Estimates (originally the Office of Research and Evaluation) was developed during the incumbency of General Hoyt S. Vandenberg as DCI (10 June 1946 to 1 May 1947). Under Vandenberg, ORE developed from the [redacted] (b)(1) (b)(3)
Central Reports Staff inherited from Admiral Souers into a large central research, reporting, and estimating unit [redacted] Economic intelligence (b)(1) (b)(3)
was only one of its functional responsibilities. In fact, the first organizational recognition that economics was a subject worthy of intelligence concern appears to have been in December 1946 with the establishment of a small Economics Group in ORE. The group was headed by [redacted] (b)(3) (b)(6)
an economist who had been special assistant to the Secretary of Commerce during the period 1942-46 and, previous to that, Chief of the Economics Division of the Bureau of Foreign and Domestic Commerce.

Although there were ultimately a number of professional economists in this group, [redacted] This group, together with a Transportation Group and several others with functional responsibilities, were regarded primarily as staff panels of expert consultants whose function it was to advise the line branches -- organized on a regional basis -- in the preparation of intelligence estimates. 5/ (b)(1) (b)(3)

In addition to performing its consultative function, the Economics Group, which like the other groups eventually became, first, a branch and then, a division, did produce some studies of its own. Probably because of the orientation and background of its chief and those he recruited, it concentrated on the production of studies on strategic materials. It also prepared an annual review of the world economic situation for the use of other elements of the Agency and for other intelligence agencies. Starting in the spring of 1948, economic defense became a major preoccupation of this group. At that time the Assistant Secretary of Commerce for

International Affairs requested the Agency's assistance in drawing up a list of strategic commodities for embargo to the Soviet Bloc. This was in effect the start of the Agency's participation in the US and the international economic defense program. ORE's Economic Division and its successor, the Economic Defense Division of ORR, were the principal instruments of that participation up through the mid-1950's.

2. <u>Eastern Europe Division: Economic Branch</u>

As indicated above, the principal producers of finished intelligence in ORE were the six regional branches (later divisions) for which the Economics Group and other functional groups served as consultative panels. Of these regional units, the Eastern European Branch under [redacted] was the only one which had its own economic section. This was established in June 1948, and it became the Economic Branch in 1949 when the regional branches were raised to divisions. With its concentration on the Soviet Union and the other

(b)(3)
(b)(6)

Communist countries of Eastern Europe -- in those days usually referred to as "the Soviet Orbit,"* this branch thus can be regarded as the nucleus of the economic intelligence organization of ORR which developed in 1951.

As of July 1949, the Economic Branch had
(b)(1) (b)(3) [redacted] professionals headed by [redacted] who (b)(3) (b)(6)
later became the first Chief of Services Division in ORR. The deputy was [redacted] (b)(3) (b)(6)

In addition to contributing to estimates, the branch produced a number of industrial studies for export control purposes and annual economic situation surveys on some of the countries within its purview. The closest approximation to the work that was to be the preoccupation of ORR during its first year of existence was IM-181, *Resources and Allocations of Steel, Aluminum, Petroleum, Electric Power, and Technical Manpower for the USSR, 1949-1952*, TS, disseminated on 21 March 1950. 6/

* The terms "Soviet Orbit," "Soviet Bloc," "Sino-Soviet Bloc," and "European Satellite" have disappeared from usage by the intelligence community as the monolithic character of World Communism has waned. They appear in this history as appropriate to the period under discussion.

3. General Division: Functional Branch

ORE's General Division had the responsibility for processing communications intelligence, and within this division, the Functional Branch, consisting of about [redacted] analysts, concentrated on Soviet industrial matters. (b)(1) (b)(3) Their particular specialty and the sensitivity of the source material made the branch a logical cadre for expanded work in this field after the creation of ORR.

4. The Transportation Division

ORE also had a Transportation Division which, like the Economic Division, evolved from a group or panel of consultants designed to serve the regional production units. It concentrated on economic problems of international air, sea, and land transport.

These four units -- with a total professional staff of less than [redacted] -- constituted the economic (b)(1) (b)(3) intelligence establishment of the Agency until the reorganization of 1950-51. The responsibilities of the units were poorly delineated. Without an adequate research base, they appear to have been largely oriented toward current reporting. Although they were surely aware of how little they knew about foreign economies -- particularly those of the

Communist countries -- they had no systematic plan for increasing this knowledge, and they apparently received little guidance on priorities. Nor were they sure of their role in the national intelligence effort, since the ambiguities of the Agency's charter had allotted economic intelligence -- along with scientific and technical intelligence -- to each agency in accordance with its respective needs.

The weaknesses of the haphazard approach to economic intelligence as practiced in ORE were not lost on the participants. In his annual report at the end of FY 1949, [redacted] the Chief of the Economics Division, noted: (b)(3) (b)(6)

[redacted] (b)(1) (b)(3)

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[redacted]

(b)(1)
(b)(3)

B. The Breakup of the Office of Reports and Estimates

1. W.H. Jackson and the Dulles Report

The Office of Reports and Estimates did not long survive the entry on duty of General Walter Bedell Smith as DCI, which occurred on 7 October 1950. The principal reason for the breakup of ORE, aside from the general recognition of the obvious fact that it was a large, unwieldy organization with too many ill-defined functions, was the belief that the estimating function should be separated from the research and reporting functions. This point of view is clearly expressed in the report of the Intelligence Survey Group set up by the National Security Council on 13 February 1948 -- the so-called "Dulles Report." 8/ It was undoubtedly the view of Smith's deputy, William H. Jackson, in particular, since he is quoted as saying that his

proudest achievement as DDCI (7 October 1950 to 3 August 1951) was the abolition of ORE and the establishment of the Office of National Estimates (ONE). 9/ Jackson appears, in fact, to have been the moving spirit behind the reorganizations of 1950-51. He had made it a condition of his acceptance of the post of DDCI that Smith approve the principles of the Dulles Report. He stated also that Smith was not particularly interested in organizational matters and had been quite content to turn them over to his deputy. 10/

The Dulles Report recommended not only the establishment of a "small Estimates Division" but also the creation of a "Research and Reports Division to perform intelligence research and reporting services of common concern." 11/ The elements of ORE that would form the nucleus of the proposed division were: the Scientific Branch (instead this branch was upgraded while still in ORE to become the Office of Scientific Intelligence (OSI), the Map Branch, the economic and transportation panels, and some elements from the regional branches. Also to be included were the Foreign Documents Division (FDD) of the Office of Operations (OO) and the library and various registers maintained by the

Office of Collection and Dissemination (OCD). 12/ It is apparent that the authors of the report visualized the new division not only as a repository for the remnants of ORE but also as a mechanism for producing finished intelligence in those areas that had not been designated as within the dominant interest of a specific agency by the National Security Council.*

The reorganizations effected by Smith and Jackson did not, of course, put an end to the inter-agency rivalries or jurisdictional disputes that form the theme of [redacted] history of the pre-1950 period. They did, however, help to clear the atmosphere. This may be attributed in large part to Smith's prestige deriving from his status in the (b)(3) (b)(6)

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* NSCID No. 3 of 13 January 1948 set forth the following as the general delineation of dominant interests:

Political, Cultural and Sociological Intelligence. .	Department of State
Military Intelligence	Department of Army
Naval Intelligence.	Department of Navy
Air Intelligence.	Department of Air Force
Economic, Scientific and Technological Intelligence . . .	Each agency in accordance with its respective needs.

military, his experience as a soldier and a diplomat,* and his personal standing with the President. (Some would add his commanding personality as a factor.) It is also apparent that Smith and Jackson proceeded cautiously and conservatively to establish the authority of the Agency where they wanted it established and, as noted by Jackson [redacted] (b)(3) (b)(6)

> appeared ready and even eager to withdraw CIA from any debatable types of functions and programs, especially in certain fields of intelligence research and production, which might disturb what the National Security Council had called the dominant interest of the departments. 13/

Although the organization and functions of the research and reports unit that emerged in 1951 were rather different from those suggested by the Dulles Report, at least the separation of the estimates function from the other functions of ORE was achieved. Beyond this, there is no evidence to suggest that there was much concern about the proper organization of the remaining functions of ORE. As in the Dulles Report, the initial purpose of ORR seems to have been as a catch-all of research and service functions. Fortunately the early establishment of OSI prevented what would surely have

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* It will be recalled that Smith served as Ambassador to the Soviet Union from 22 March 1946 to 25 March 1949.

been an unhappy marriage of economic and scientific research in the same office, while the ultimate decision to limit ORR to economic and geographic research and the coordination of basic intelligence left the service functions of FDD and OCD undisturbed.

2. NSC Action 282

That economic intelligence emerged as the main business of ORR, then, does not appear to have resulted from the recommendations of the Dulles Report or the ideas of the Agency's new leaders. The development can be attributed, in part, to the decisions and philosophy of ORR's first head, [redacted] -- as will be shown in the next chapter -- (b)(3) (b)(6) and in part to the action of the National Security Council of 3 March 1950, directing the CIA to organize and conduct a study of foreign economic intelligence requirements and facilities, to make arrangements for meeting these requirements, and to prepare a plan for satisfying such requirements, including a definite allocation of responsibilities among the agencies concerned. 14/

This action, which became formalized as NSC Action 282, resulted from a proposal for such a study by John R. Steelman, Acting Chairman of the

National Security Resources Board, whose primary official interest was in mobilization planning but who recognized the relevance of his requirements to broader aspects of national security policies and programs. Merely to call for an appraisal of the nation's foreign economic intelligence facilities and arrangements, as was done by Steelman, was to focus attention on the chaotic state of the US Government's economic intelligence effort in 1950. Although there is no direct evidence that NSC Action 282 forced or even suggested the creation of an economic intelligence unit in CIA, the surfacing of the issues could not fail to have been a factor in the selection of this particular solution to the organizational problems created by the disintegration of the old Office of Research and Estimates.

Chapter II

THE EARLY DAYS OF ORR

"All the business of life is to endeavor to find out what you don't know by what you do."

-Arthur Wellesley, Duke of Wellington

"...patient and thorough examination and analysis of the mass of detailed information available to us as to the present status and prospects of the Soviet economy ... is ORR's main job. It may well be the most important research job there is in the country today."

[redacted] (b)(3) (b)(6)

CHAPTER II

The Early Days of ORR

A. The Period of Uncertainty

The Office of Research and Reports (ORR) was formally established on 13 November 1950 by General Order [redacted] (See Attachment A.) The same order also established the Office of National Estimates (ONE), and the implication was that ORR was to pick up all the remnants of the old Office of Reports and Estimates. Although this turned out not to be the intention, apparently nobody advised [redacted] the Assistant Director of the old office who was duly named Assistant Director, Research and Reports, in the order, and who proceeded to draw up alternative organization plans for the new office.* None of the plans he proposed except the last bore much replationship to the realities of the situation. 16/ They were apparently based, in the absence of more immediate guidance, on the Dulles Report, which had called for a:

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(b)(3)
(b)(6)

* According to [redacted] everyone but [redacted] knew that his days were numbered. In fact, General Smith had planned to fire him back in October because no current coordinated estimate of the Korean situation had been prepared by ORE, but Jackson had persuaded him that it should not be done that abruptly. 15/

(b)(3)
(b)(6)

> Research and Reports Division responsible for authoritative research and reports in economic, scientific and technological intelligence, the maintenance of central reference facilities, and such other matters as are deemed of common concern. 17/

With [redacted] obviously out of touch with reality and ONE skimming the "cream" off the Office,* there was a general scurrying about of the other people attempting to relocate themselves in other offices of the Agency or in the Department of State, leaving what Jackson [redacted] described as a "disintegrating establishment." 19/ (b)(3) (b)(6)

B. Announcement of ORR's Functions by the DDCI, 18 December 1950

At least some of the ambiguity concerning the new Office's mission was dispelled at the Director's staff meeting on 18 December 1950. The DDCI, William H. Jackson, after extensive discussions with the Department of State, announced on this occasion that ORR would have three primary activities -- the National Intelligence Survey (NIS), Map Programs (that is, geographic intelligence), and a "new venture into economic intelligence research and evaluation, especially with respect to

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* According to [redacted] a call to ONE was regarded as "an invitation to join Noah's Ark." 18/ (b)(3) (b)(6)

the Soviet and satellite areas" -- plus any other services of common concern that might be directed by the NSC. 20/

On the same day [redacted] proposed a 90-day interim organization of ORR consisting of the following divisions: (b)(3) (b)(6)

Regional Research Division
Psychological Division
Economic and Industrial Division
Geographic Division
Basic Division

Although it is nowhere stated in the proposal, it appears that the Regional Research Division and the Psychological Division were "holding operations" for ORE remnants until it was decided what to do with them. The elements that were to form the Regional Research Division apparently became the nucleus of the Office of Current Intelligence, while the Psychological Division, which was assigned only three persons, was not accepted as an appropriate function for ORR by [redacted] successor, [redacted] (b)(3) (b)(6)

[redacted] The function was transferred to the Department of State, and the Division itself formally terminated on 15 April 1951. The Economic and Industrial Division as proposed by [redacted] in this case had a large non-Soviet Orbit Branch, indicating (b)(3) (b)(6) (b)(3) (b)(6)

that he was not yet persuaded that the office was to concentrate on the "Orbit" in its economic intelligence activities. 21/

[redacted] final effort at organizing the office (b)(3) (b)(6) appeared in a briefing paper prepared for training purposes. It called for six divisions, namely:

Materials
Manufacturing
Economic Services
Economic Analysis
Basic
Geographic

and defined the basic fields of interest in economic intelligence as:

Soviet-Orbit Economics
Worldwide Transportation
Worldwide Communications
Worldwide Strategic Commodities 22/

C. The Appointment of [redacted] as AD/RR (b)(3) (b)(6)

The appointment of [redacted] as Assistant (b)(3) (b)(6) Director for Research and Reports was announced in General Order No. 40 on 4 January 1951. [redacted] the son of [redacted] (b)(3) (b)(6) had received his doctorate in economics from Yale in 1941 and, after wartime service in the Office of Price Administration and the War Shipping Administration, served as [redacted] in (b)(3) (b)(6)

1946. He came to the Agency from the Massachusetts Institute of Technology where he had been Associate Professor of Economics since 1949.

[redacted] came to CIA at the behest of the new (b)(3) (b)(6)
leaders of ONE, [redacted] and Sherman Kent, (b)(3) (b)(6)
with whom he had worked in the State Department following World War II (November 1945 - July 1946). He apparently also came with a certain reluctance. Regarding the job as a limited commitment, he did not bring his family to Washington, but boarded with an old friend and colleague, [redacted] (b)(3) (b)(6)
As he explained later, in the fall of 1950 Allied fortunes in the Korean War were at their lowest ebb, and there was a fear in the academic world that the United States would soon be engaged in a full-scale war. [redacted] feeling and that of his MIT colleagues was that he might as well "be drafted for the assignment now rather than forced into a worse one later." 23/ (b)(3) (b)(6)

In spite of his expressed reluctance to undertake the assignment, [redacted] soon put his stamp on ORR and on the course of economic intelligence in (b)(3) (b)(6)

*[redacted] later the Deputy Director/Plans, was not employed by the Agency during [redacted] tour with ORR. (b)(3) (b)(6)

(b)(3) (b)(6)

the Agency and the community for the next several years. He had been told by Smith and Jackson that he could have more or less *carte blanche* within the broad directives that were being laid on for economic intelligence. He recognized that his job was "to get on top of the Soviet economy." On the way to solving this problem, he also realized that he must cope with the disintegration of morale within the Office. [redacted] he was familiar with the sort of disintegration that takes place when a staff is broken up. 24/ (b)(3) (b)(6)

After he reported for duty on 15 January 1951,* [redacted] soon recognized that, of the three main production tasks facing ORR, economic intelligence presented the greatest challenge. The coordinating, editing, and publishing of the NIS and the production of geographic intelligence were functions that had been carried out for some time in ORE and were being continued with no significant change in mission or leadership in ORR. He was therefore content to leave their day-to-day management in the hands (b)(3) (b)(6)

* [redacted] resigned from the Agency soon afterwards to take a position with the Federal Civil Defense Administration. (b)(3) (b)(6)

of their experienced and capable chiefs. The conduct of research into foreign economic factors affecting the national security had, on the other hand, never been appropriately organized; the nature of the economic intelligence mission had never been systematically examined or described; basic economic data were scattered throughout the Government and elsewhere; and many agencies were, for their own purposes, collecting and disseminating economic information with little or no coordination.

1. <u>Initial Organization of ORR</u>

As an interim table of organization (4 February to 30 June 1951), [redacted] selected the last (b)(3) (b)(6)
of several schemes available among the [redacted] proposals. (b)(3) (b)(6)
This basic line organization of ORR, as announced in CIA Regulation No. 70, dated 19 January 1951, called for six divisions and a Production Staff. Two of the six divisions, Basic Intelligence and Geographic, were established to continue the functions that had been a part of the Agency's mission in the days of ORE. The other four were newly established to carry out the economic intelligence mission. Although a number of reorganizations were to follow as this mission was further delineated, the basic four-division structure for economic re-

search, consisting of Economic Services, Materials, Manufacturing (redesignated Industrial on 18 January 1951), and Economic Analysis Divisions, proved to be quite durable. Not until 1962 was the economic intelligence activity to undergo a reorganization that upset this basic structure at the division level. Curiously, the brief mission and functions statement for the Office contained in CIA Regulation No. 70 made no mention of economic intelligence.*

The other refinements of this organizational structure introduced in the early weeks of the [redacted] regime were minor: filling an obvious omission by establishing an Administrative Staff, dividing the Production Staff into a Reports Division and a Requirements and Control Division, and establishing the Strategic Division (D/Z). The latter was designed to handle communications intelligence material pending the development of an all-source research center.** (b)(3) (b)(6)

* See Attachment B; see also Attachment C for the branch breakdown within the economic research divisions.
** The nucleus of the Strategic Division was a group of about [redacted] professionals with supporting clericals who had carried on industrial research as part of the old General Division of ORE. The main body of General Division [footnote continued on p. 24]

(b)(1)
(b)(3)

The principal change that [redacted] effected in the organizational plans presented to him on his arrival was to reject the proposed large Plans and Policy Staff, which he regarded as placing the real direction of the Office in the hands of non-substantive people. He believed that this was a military-type scheme not applicable to the kind of operation he proposed to run. He preferred to operate directly through his division chiefs. 25/ (b)(3) (b)(6)

2. The [redacted] Philosophy (b)(3) (b)(6)

Of greater significance than the organizational structure in the effort to launch a systematic economic intelligence program was the development of a common understanding in the Office as to the definition, purposes, and *modus operandi* of the foreign economic intelligence mission. Not only was this step important to the efficient accomplishment of the mission, but it was recognized as an

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was assigned to the newly formed Office of Current Intelligence (OCI) in January 1951, but this particular group, the former Functional Branch, moved virtually intact into ORR. Because of the sensitivity of its unique source material and the particular skills needed to exploit it, the group had developed an *esprit de corps*, which in the minds of many of its members set it apart from the rest of the Office. This fact, together with the fact that it duplicated the substantive responsibilities of the other divisions, caused a number of management problems which continued during its separate existence and for some time after its dissolution in September 1953. See IV, A, below.

(b)(3) (b)(6)

obvious need in terms of personnel management, for, as Jackson [redacted] point out, among [redacted] (b)(3) (b)(6) most pressing problems were the needs to find a suitable and productive job for each person retained in ORR and to transform "a demoralized collection of people into an organization capable of team work." 26/

The fundamental concepts of ORR's mission were developed by [redacted] and given written expression in a paper, *The Role of ORR in Economic Intelligence*, which he prepared in the summer of 1951. 27/ (b)(3) (b)(6) This paper, which became a blueprint for ORR's economic intelligence activities in this early period, defined economic intelligence as:

> intelligence relating to the basic productive resources of an area or political unit, the goals and objectives which those in control of the resources wish them to serve, and the ways in which and the effectiveness with which these resources are in fact allocated in the service of these various goals. 28/

Under this definition, economic intelligence was seen as more than an inventory of the target country's resources. Such an inventory would be of little use without an understanding of the objectives the resources are to serve and the military establishments and social and political

institutions that they support. Economic information becomes economic intelligence only when its relevance to national security problems is made clear. Thus the economic intelligence mission was described as having at least five basic purposes:

> (1) To estimate the magnitude of possible present or future threats to the US and its allies by evaluating the total economic resources on which the possible enemy's military potential must depend;
>
> (2) To estimate the character and location of such threats by learning the potential enemy's allocation of these resources;
>
> (3) To assist in estimating the intentions of the potential enemy;
>
> (4) To aid in decisions on policies and actions that can reduce the possible threat by seizing on or creating economic vulnerabilities;
>
> (5) To estimate the probable development of East and West over a period of years under the assumption that war does not occur during the interval. It is essential to policy planning to have the most accurate estimate possible of the relative economic strengths of both sides in the Cold War. 29/

Although the fifth of these basic purposes pointed to the need for knowledge of the Free World economies as well as those of the Soviet Bloc countries, the paper makes it clear that ORR's effort was to be concentrated on the latter.

> This is partly because the Iron Curtain has made access to Soviet economic intelligence more difficult, partly because the Soviet economic potential is perhaps the most critical for our national security, and partly because, for a variety of reasons, the economic potential of other areas crucial for our national security, such as Western Europe, has been more extensively studied. The mature economies of Western Europe have long been an object of study by both academic and government economists. The European Recovery Program has stimulated extensive analysis of the characteristics, needs, and prospects of the Marshall Plan countries. Thus the economic research effort in man-hours directed at the USSR and its satellites has been vastly less than that applied to Western Europe, although, because of the Iron Curtain, the effort required to produce comparable understanding is many times greater. For these reasons we have concluded that the principal effort of ORR in intelligence production must be focused for the immediate future on the economic problems of the Soviet Bloc. 30/

The task implicit in these five purposes was viewed as a formidable one. Indeed a panel of consultants, upon reviewing the aims of ORR, expressed the opinion that the task would require "several thousand" trained analysts if it were to be performed effectively. 31/ A staff of this magnitude was, of course, never achieved or even seriously contemplated; the largest number of professionals on board at any one time in what became the Economic Research Area appears to have been [redacted] (b)(1) (b)(3)
reached in 1953.

It was, of course, recognized that large gaps existed with regard to the basic data on the Soviet economy, and the first months of ORR's existence were spent in making a thorough inventory of what was known -- with the aim of defining what was not known and what should be known -- about Soviet economic capabilities. Termed the "Inventory of Ignorance," this became the base from which the Office, by what [redacted] called "the Method of Successive Approximations," then proceeded to develop a series of tentative conclusions reaching for constantly greater exactness as to the upper and lower limits of Soviet capabilities. The task thus involved a constant repetition of: review and examination of information that was available; selection of points of greatest weakness; concentration of collection, research, and analytic efforts on these points; then re-review and re-examination to determine whether emphasis should be shifted. As indicated by the consultants' estimate of "several thousand," no one really knew how many analysts or how long a period would be necessary to achieve a satisfactory degree of success -- or, in fact, what would constitute a satisfactory degree of success in this endeavor -- and of course the

(b)(3)
(b)(6)

same process was contemplated in some degree for the European Satellite nations as well, and ultimately for Communist China. It is little wonder, therefore, that scant consideration was given at the time to work on Free World countries.

"The Inventory of Ignorance" resulted in a basic research program called originally "Task Force I Extension." This consisted of 91 projects proposed in July 1951 and 15 added later in that year. In addition to these programed projects, more than 50 additional projects were laid on during the last six months of 1951 -- some "self-initiated" (proposed by branches and divisions)*; others the result of requests from other offices or agencies. 32/

[redacted] guidelines recognized that the (b)(3) (b)(6)
dilemma "of the clamorous customer versus the basic study" demanded a compromise. If the Office tried to answer every question put to it, it would never find the time to build a reliable base of information and sound judgment about the target economies; if it devoted itself to exhaustive research, events and the policymaking customers would pass it by. Since there was no either-or solution possible,
[redacted] exhorted his forces to: (b)(3) (b)(6)

* See V, A, 4, below.

> try to answer the most important of the problems put to us from day to day as quickly and as competently as possible. But we must reserve a *major part* of our energies for improving the foundation of knowledge from which better quick answers can be given. [Emphasis supplied.] 33/

[redacted] had, of course, put his finger on a problem that was always to plague ORR (and its successor OER): how to maintain an adequate up-to-date research base to support with confidence the answers to the questions that policy officers would pose, when policy support inevitably encroached on the reserves of time and other resources needed for basic research. (b)(3) (b)(6)

3. The Impact of the [redacted] Philosophy (b)(3) (b)(6)

The process of economic intelligence production as visualized by [redacted] was keyed to the secretiveness of the USSR under Stalin and was well suited to the capabilities of ORR in its early years and to the demands that were made upon the Office during that period. As indicated above, *The Role of ORR in Economic Intelligence* became a blueprint for the Office's activity. The paper and its concepts were well received -- not only by the production elements in the Office, which were looking rather desperately for guidance, but also by those interested in developing guidelines for the (b)(3) (b)(6)

intelligence process in more general terms. The greater part of this paper was reprinted under a revised title, *The Nature and Methods of Economic Intelligence*, in the third issue of *Studies in Intelligence* and described in an editor's introduction as "a distinguished contribution to the study of intelligence analysis methodology." 34/ The editor went on to note that:

> its application is by no means limited to economic intelligence; the same order of analytic problems, the same problems of sources, extent of information, competing requirements, liaison, and coordination arise in any intelligence acitivity. The same problem [redacted] addresses, that of building authoritative knowledge out of fragmentary sources, is perhaps the central problem of the intelligence process as a whole. 35/ (b)(3) (b)(6)

In later years, as will be seen, the economic intelligence problem changed. As collection processes improved and as the Soviets and their European Satellites became more open in their willingness to release economic data,* the job of economic intelligence became easier in one sense (more data to work with) and more difficult in another (more sophisticated analysis was needed to interpret the data). With these changes came a change

* The first Soviet statistical handbook was released in 1956.

in the type of expertise required by the Office. To achieve the breakthroughs sought by [redacted] (b)(3) (b)(6) Method of Successive Approximations required a knowledge of techniques of industrial processes: the ability, for example, to estimate output from studies of factory floorspace, number of workers employed, and the like. [redacted] observed that: (b)(3) (b)(6)

> there must be present in our work a much heavier dose of technical and engineering thinking than is customary in economic studies. 36/

Thus ORR needed and recruited during this period technical experts in various industries and services. The need for skills in economic analysis, while present in this period, became much more pressing in later years as the questions changed and emphasis was put on economic growth patterns, resource allocation, costing exotic space and military items, intra-Bloc economic relations, relations with the non-Communist world, and particularly as the Office took on increasing responsibilities for coverage of Free World economies.

D. Staff Development

The development of a staff of analysts -- both economists and technical experts -- capable of the job that [redacted] envisioned meant, in terms of (b)(3) (b)(6)

numbers alone, considerable expansion. The residue of ORE available and assigned to the Office for the economic divisions as of 1 February 1951 consisted of [redacted] professionals for the Materials Division, [redacted] for the Industrial Division, [redacted] for the Services Division, [redacted] for the Analysis Division, and [redacted] for the Strategic Division. 37/ By internal reassignment and external recruitment, this nucleus of [redacted] professionals had increased by 1 July 1951 to [redacted] on duty or awaiting clearance for the economic divisions. 38/ By the end of 1951, the actual on-duty professional strength of the five economic divisions was [redacted] 39/

(b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3) (b)(1) (b)(3)

The group inherited from ORE for the economic divisions included, in addition to the five division chiefs,* both technical specialists and economists, but there was a strong overload of the former -- particularly in the higher grades. It took some time to weed out those who were incapable of meeting ORR's new responsibilities, but many of the ORE group had significant careers in ORR and

* Economic Analysis Division [redacted]
Economic Services Division
Industrial Division [redacted]
Materials Division -
Strategic Division -

(b)(3) (b)(6)

made valuable contributions in their specialities in subsequent years. A notable example among the ORE professionals who continued in ORR was [redacted] whose career as an expert in Russian agriculture dated back to service in the Russia of the Czars and whose value to the Agency as an expert on Soviet agriculture caused him to be exempted from the normal retirement age regulations until he was retired in 1961 at the age of 84.* (b)(3) (b)(6)

Others of this ORE group who ultimately served in ORR as Branch Chiefs, Staff Chiefs, or higher, [redacted]

(b)(1) (b)(3) (b)(6)

[redacted]

(b)(1) (b)(3) (b)(6)

[redacted] (b)(1) (b)(3) (b)(6)

The recruitment effort during [redacted] regime (b)(3) (b)(6) continued to seek out technical specialists in certain categories, but the emphasis was toward acquiring people with a broader background in economics; a few with training in other social science disciplines, such as history and political science, were also added in this period. The specialized nature of Strategic Division's work required a knowledge of Russian, and many of its recruits were recent graduates of Russian language and area programs, which became popular in a number of universities after World War II.

[redacted] spent much time and effort attempting (b)(3) (b)(6) to recruit economists of proven quality, but was,

in his view, largely frustrated by the security clearance problem. Added to the chronic problems created by the long passage of time between initial contact with a prospect and his security clearance was the fact that, by the time clearances were achieved, the war scare of late 1950, which had been the primary reason for [redacted] acceptance of a CIA job, had considerably abated. Many of the people he tried to hire were former colleagues and acquaintances from World War II Washington who had happily returned to academic life after that war and were in no mood to return. Turning under these circumstances to the recruitment of less experienced economists, preferably Ph.D.'s or potential Ph.D.'s, he did achieve some success. 41/ (b)(3) (b)(6)

The group of young economists recruited during this period included many who made significant careers in ORR as well as a number who moved on to positions of distinction in other parts of the Agency, other departments of government, or the academic community. The Analysis Division, with its mission of aggregating and interpreting the data developed by the other divisions on the Soviet Bloc economics, naturally drew the largest number of those with advanced economic training. One of

these was [redacted] who entered on duty in June 1951 and became the first chief of Analysis Division after it was divested of its economic defense duties and became strictly a research and analytical arm of the Office in 1952.* Although resigning to reenter academic life in the fall of 1952, he remained active as a consultant to the Office until June 1963.** He also became one of the Office's major antagonists in the debate over Soviet economic growth in the late 1950's.***

(b)(3)
(b)(6)

Others among the young economists recruited during the [redacted] era included:

(b)(3)
(b)(6)

[redacted]

(b)(1)
(b)(3)
(b)(6)

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* See III, A, 1, below.

[redacted]

(b)(3)
(b)(6)

*** See IX, below.

[redacted] (b)(1) (b)(3) (b)(6)

Also recruited during this period were a few young analysts with neither a technical specialty nor an economics major. That this proved no handicap is attested by the careers of the following:

[redacted] (b)(1) (b)(3) (b)(6)

E. The Coordination Problem

In addition to organizing and staffing an office to conduct economic intelligence research and to providing guidelines for this activity, [redacted] (b)(3) (b)(6)

had to respond to the directive of NSC Action 282, 3 March 1950, calling on the CIA to conduct a study and prepare a plan for satisfying the foreign economic intelligence requirements for the national security, including a definite allocation of responsibilities among the agencies concerned. 42/ This directive had apparently been shelved in the confusion surrounding the organizational upheavals following November 1950. As soon as the Office course had been set, however, [redacted] assisted by Dr. Walt W. Rostow -- at that time an ORR consultant and an MIT colleague -- moved to address the community-wide aspects of the problem.* The results of their study were duly forwarded to the NSC on 31 May 1951. (b)(3) (b)(6)

In his covering memorandum the DDCI pointed out that ORR had been established to coordinate the economic intelligence activities of other agencies and to produce such economic intelligence as was not otherwise allocated. 43/ In addition, he recommended the establishment of an Economic Intelligence Committee (EIC) as an appropriate mechanism to assure that:

[redacted] (b)(1) (b)(3)

(1) the full economic knowledge and technical talent available in the Government can be brought to bear on specific issues involving the national security, and

(2) important gaps in the collective knowledge of the Government can be identified on a continuing basis and responsibility for filling them be allocated as they are disclosed.

It was pointed out that some 24 agencies of the US Government (within which some 77 subordinate units were identified) regularly collected and analyzed foreign economic data. Not only was there no adequate machinery for the mobilization of the available data and analytic competence around security problems, but also there were important gaps in the collective knowledge of the Government. To provide such machinery and to fill these gaps, the proposed EIC would have the following functions:

(1) Arrange concerted economic intelligence support, on selected major issues, for studies of interagency interest requested by the Intelligence Advisory Committee, the Joint Chiefs of Staff, etc.

(2) Arrange for the mobilization of the data and analysis available, relevant to appropriate operating problems of any member agency requesting assistance, or of any other agency dealing with economic security problems, which may request assistance.

(3) Examine continuing programs of fundamental economic research relating to the national security throughout the United

States Government and recommend to the Intelligence Advisory Committee for appropriate action allocation of responsibility for specific fields of inquiry where such allocation appears appropriate.

(4) Review and report to the Intelligence Advisory Committee from time to time on the pertinence, extent, and quality of the data and analysis available, bearing on the issues analyzed.

(5) Recommend to the Intelligence Advisory Committee for appropriate action priorities and allocation of responsibilities for the collection and analysis to fill specific gaps in the economic intelligence needed for national security.

(6) Maintain a continuing review of the foreign economic intelligence activities of the United States Government as they relate to the national security.

(7) Make such special reviews of economic intelligence distribution and processing procedures as may appear useful, and make recommendations for improvement to the Intelligence Advisory Committee, which shall have responsibility for instituting such action as it may judge appropriate.

(8) Prepare coordinated reports which present the best available foreign economic intelligence.

In spite of the clear directive in NSC Action 282 to prepare a plan based on a definite allocation of responsibilities among the agencies, the report recommended against any attempt to allocate responsibility for economic intelligence production among the various agencies "at this time" because virtually all the agencies producing such intelligence

had operating needs for it in the discharge of their missions, and many of the problems were of direct operating concern to two or more agencies. This failure to allocate responsibilities was to cause jurisdictional problems from time to time in the coming years, but it was probably necessary at this point in order to prevent a jurisdictional squabble which might have delayed acceptance of the EIC. In addition, ORR, only a few months old and not yet staffed to do the job as [redacted] visualized (b)(3) (b)(6)
it, was hardly in a position to claim exclusive jurisdiction for any portion of the economic intelligence production responsibility. The report did point out, however, that ORR had been recently organized to conduct basic research in "a number of economic fields affecting the national security with special emphasis on authoritative basic research into the economy of the Soviet orbit." 44/

NSC Action 282 resulted not only in the establishment of the EIC but also in the issuance of NSCID 15 on 13 June 1951, which, among other things, directed the Central Intelligence Agency to:

> conduct, as a service of common concern, such foreign economic research and produce such foreign economic intelligence as may be required: a) to supplement that produced by other agencies either in the appropriate

discharge of their regular departmental missions or in fulfillment of assigned intelligence responsibilities; b) to fulfill requests of the Intelligence Advisory Committee.*

There were in fact few problems of jurisdiction during ORR's first year. A letter to the Secretary of State from the DCI dated 1 February 1951 acknowledged State's primary responsibility for political, cultural, and sociological intelligence, but with respect to economic intelligence promised to "discuss ... appropriate procedures [for] ... an effective coordination of such economic intelligence activities." 45/ There is no record of any demurrer on the part of State to ORR's announced intention to concentrate major resources on economic intelligence concerning the Sino-Soviet Bloc, as it emerged from the discussions and negotiations relative to the establishment of the EIC and the issuance of NSCID 15. When [redacted] paper, *The Role of ORR in Economic Intelligence*, was distributed, he received a letter from [redacted] Director of the Department's Office of Intelligence Research (OIR)

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(b)(6)
(b)(3)
(b)(6)

* See Attachment D. This directive, and particularly the quoted paragraph, became ORR's charter for its economic research activities for the next three years: that is, until DCID 15/1 of 14 September 1954 spelled out the Agency's economic intelligence role more precisely.

praising the paper but with a veiled implication that State was reserving its rights with regard to departmental intelligence needs. 46/ This was possibly a harbinger of more difficult jurisdictional problems with the State Department in the years to come.

(b)(1)
(b)(3)
(b)(6)

(b)(1)
(b)(3)
(b)(6)

[redacted]

(b)(1)
(b)(3)

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(b)(1)
(b)(3)

(b)(1)
(b)(3)

[redacted] (b)(1) (b)(3)

H. Relations with WSEG

An important consumer of ORR's products, in [redacted] day as well as later, was the Weapons Systems Evaluation Group (WSEG) of the Office of the Secretary of Defense. The studies requested by this organization usually coincided quite closely with work that ORR had an interest in for the accomplishment of its overall mission and were therefore readily accommodated within the regular research activities of the Office. For example, in February 1952, WSEG requested a broad-gauged study of agriculture and crops in the USSR. 52/ Other projects undertaken for WSEG in 1952 included a study of basic material and manpower inputs for certain items of Soviet military equipment and supply and an estimate of the minimum annual civilian petroleum consumption of the Soviet Bloc in time of war. (b)(3) (b)(6)

The negotiation between WSEG and ORR on the details of some of these requests was handled on the WSEG side by [redacted] A serendipitous result of this relationship was, of course, (b)(3) (b)(6)

achieved in 1953 with the transfer of [redacted] from WSEG to become the first chief of the Economic Research Area of ORR. (b)(3) (b)(6)

I. <u>Accomplishments of [redacted] Tour</u> (b)(3) (b)(6)

By early 1952, when [redacted] left CIA and returned to M.I.T.,* ORR had been launched in terms of its major objective: the analysis of the Soviet economy. The "Inventory of Ignorance" had been just about completed -- for its first go-around at least. An initial look at the East European Satellites had also been accomplished with the publication of the Office's first basic intelligence report, CIA/RR Project 6-51, *The European Satellite Power Complex*, consisting of 1,554 pages of material on the individual countries and a 19-page survey and analysis of the economic significance of the satellite countries to the Soviet Union. Little had yet been done, however, on the Communist China problem. (b)(3) (b)(6)

* [redacted] remained at M.I.T. as Director of the Center for International Studies (CENIS) until his death in December 1969. [redacted] An authority on economic development of underdeveloped countries and on East-West trade, he served in 1965 as a member of the Miller Committee, appointed by President Johnson to explore the possibilities of expanding trade relations with the countries of Eastern Europe [redacted] (b)(3) (b)(6) (b)(1) (b)(3) (b)(1) (b)(3)

The production record of the economic components during 1951 included: [redacted] Intelligence Memoranda, (b)(1) (b)(3) [redacted] Task Force I papers (that is, "The Inventory of (b)(1) (b)(3) Ignorance" or, more formally, Project 3-51, *Preliminary Basic Inventory of Economic Intelligence Concerning the USSR*), of which [redacted] were Provisional (b)(1) (b)(3) Reports, [redacted] contributions to National Intelligence (b)(1) (b)(3) Estimates, [redacted] papers in support of other CIA Offices, (b)(1) (b)(3) and [redacted] miscellaneous projects in support of outside (b)(1) (b)(3) requesters. 53/

[redacted] own assessment of the substantive (b)(3) (b)(6) accomplishments during his regime is of interest. He believed that a few papers were produced which had had significant influence in Washington. For example, a paper on East-West trade had brought various important people to hold less exaggerated ideas of the effectiveness of trade controls in economic warfare against the USSR.* He also believed that the economic reports issued under his stewardship had narrowed the gap that had existed between the extremes of views regarding Soviet

* [redacted] did not further identify this paper. (b)(3) (b)(6) It was probably an early version of the EIC contribution to NIE-59, *Probable Effects of Severance of East-West Trade*, 16 April 1953, S., the gist of which was that the Soviet Bloc could adjust to the loss of Western export [footnote continued on p. 55]

economic capabilities. On the one hand were the people who tended to think that the USSR could do virtually anything, and on the other, those that thought it could do practically nothing. ORR had taught them to see approximately where the truth lay between these extremes. 54/

If this latter were in fact the case, it was no small accomplishment. This was a period when there was a wide divergence in estimates of Soviet capabilities. The differences led to equally different conceptions of the foreign policies required to avoid global hostilities, and, to the extent that these differences could be resolved by careful examination and analysis of the Soviet economy, a major contribution to the nation's policy decisions would be

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items, albeit at increased costs. Initiated in November 1951, this project was ultimately published as EIC-R-3, *Generalized Assessment of Economic Damage to the Soviet Bloc in the Event of a Complete Severance of East-West Trade*, 31 August 1953, S. This paper was an early expression of this Office's continuing effort to dispose of the "bottleneck fallacy," i.e. the illusion that if a target country can be denied access to particular key commodities -- whether by trade controls, or by more violent denial methods -- its economy and its war-making capabilities will be significantly limited. Operational advocates of such methods have consistently exaggerated their effectiveness and underrated the resiliency of both modern and primitive economies in overcoming interdiction activities. (See Volume II, chapter on Vietnam.)

made. At least a start was made in this direction in the [redacted] era. The differences -- although narrowed -- would continue,* however, and the responsibilities of ORR to resolve them would grow. (b)(3) (b)(6)

[redacted] was able to turn over to his successor a going organization with a sense of mission -- again no small accomplishment when looked at in the light of the demoralized group that he had taken over only a year before. The morale problem had evaporated when absorbing tasks had been laid on and each individual had been convinced that he had a contribution to make. The intelligence community's resources had been organized behind the Office through the EIC mechanism. Most important, effective personnel management, including recruitment, had started to surface a group of professionals, both economists and technical specialists, that would provide an effective cadre for the tasks that lay ahead. (b)(3) (b)(6)

* See IX, below.

Chapter III

1952–THE [redacted] YEAR

(b)(3)
(b)(6)

"It snows in Moscow, too."

[redacted]

(b)(3)
(b)(6)

(on the occasion of a federal workers' "snow" holiday)

CHAPTER III

1952 - The [redacted] Year (b)(3) (b)(6)

[redacted] was succeeded on 17 March 1952 as Assistant Director, ORR, by [redacted] (b)(3) (b)(6) (b)(3) (b)(6)
[redacted] had had a distinguished military record in World War II, rising from the rank of private to colonel in the Corps of Engineers. Following the war he returned as Professor of Law to Harvard Law School, from which he had graduated in 1938. He came to the Agency at the behest of [redacted] (b)(3) (b)(6) (b)(3) (b)(6)
[redacted] the newly appointed (1 January 1952) Deputy Director for Intelligence (DDI), with the understanding that he would succeed [redacted] in that post. 55/ This succession occurred on 1 May 1953. Since [redacted] was named Assistant DDI on 23 February 1953, he served as AD/RR for less than a year. Not an economist,* he did much less than his predecessor to influence the substantive product of the economic research divisions in the Office during his tenure. His administrative influence, (b)(3) (b)(6) (b)(3) (b)(6) (b)(3) (b)(6)

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* An unsuccessful effort was made to find a "name" economist to serve as [redacted] deputy. Among those who were approached but were, for one reason or another, unable to accept were [redacted] (b)(3) (b)(6) (b)(3) (b)(6)

however, both as head of ORR and later as DDI for nine years, was a significant factor in setting the Office's course during that period and in establishing the Office's stature in the intelligence community.

A. Organizational Changes

1. The Break Up of the Analysis Division

Upon reporting for duty, [redacted] was faced (b)(3) (b)(6)
with a number of organizational suggestions, prepared at his request, by key people in the Assistant Director's Office. Of these the most significant was probably that submitted by [redacted] an economist who had come to the (b)(3) (b)(6)
Office in June 1951 from an assistant professorship at Yale. [redacted] after noting the shortage of (b)(3) (b)(6)
professional economists in the top supervisory positions of the Office, suggested that the difficulty in recruiting top-flight research economists might be alleviated by a clearer separation of the basic research and analysis function from the operational support function. 56/ These two functions were at the time combined in the Economic Analysis Division.

The Analysis Division had, in fact, until just before [redacted] arrival been even more of a hodge-podge. Its Techniques and Methods Branch [redacted] had been taken out and elevated to the division level in January 1952, leaving three branches which handled the Agency's economic defense responsibilities and two -- the Economic Capabilities Branch and the Economic Strategy Branch -- doing research and analysis in pursuit of the main economic intelligence objective: the economic capabilities and vulnerabilities of the Soviet Bloc. [redacted] proposed that this latter activity was worthy of division status, while the economic defense branches, being involved primarily in operational support, should also be established under a separate division. This proposal was duly acted upon, and the Economic Defense Division became a reality on 1 June 1952. The Analysis Division was reconstituted with four branches: Capabilities, Budgets and Plans, Economic Surveys, and Economic Accounts. The Economic Accounts Branch was the temporary home of ORR's Estimate File.*

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(b)(6)
(b)(1)
(b)(3)
(b)(3)
(b)(6)

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* See VI, B, below.

2. The Establishment of Areas

Another proposal made by [redacted] called for a Deputy Assistant Director for Research with "ultimate responsibility and authority for formulating, directing, and reviewing the overall research program of ORR." 57/ At the same time there was another memorandum of suggested organizational changes on [redacted] desk, calling for three Deputy Directors -- one each for Administration, Operations, and Research. 58/ Both proposals suggested special staff support for the DAD for Research in the form of senior advisers primarily for the review of papers, for, as [redacted] expressed it, "Division and branch chiefs have, of necessity, too many vested interests in the research products of their shops to provide detached critical review."* 59/ (b)(3) (b)(6) (b)(3) (b)(6) (b)(3) (b)(6)

Although [redacted] accepted neither of these proposals as they stood, he adapted them, presumably with the advice and counsel of others in (b)(3) (b)(6)

[redacted] (b)(1) (b)(3) (b)(6)

the Office, into a fundamental reorganization, which had two major objectives: to reduce the span of control and to provide expert substantive guidance for the economic research activity. These were accomplished by grouping the Divisions into three Areas, thus reducing to three (from 14) the number of units reporting to him, as follows (see also Attachment E):

ECONOMIC RESEARCH AREA (ERA)

Analysis Division
Industrial Division
Materials Division
Services Division
Reports Division
Techniques and Methods Division
Strategic Division

GEOGRAPHIC RESEARCH AREA (GRA)

Geographic Division
Cartography Division
Map Library Division
Photo Intelligence Division

COORDINATION AREA

Economic Defense Division
Basic Intelligence Division
EIC Secretariat

The heads of the Geographic Research Area and the Coordination Area were [redacted] and (b)(3) (b)(6)
[redacted] who had been Chief, Geography Division, and Secretary of the EIC,

(b)(3)
(b)(6)

respectively. The search for an experienced economist to head the Economic Research Area culminated with the selection of [redacted] (b)(1) (b)(3) (b)(6) did not, however, report for duty until May 1953, after [redacted] had assumed the post of DDI and [redacted] had become AD/RR. (b)(3) (b)(6) (b)(3) (b)(6)

B. <u>The Initiation of Research on Communist China</u>

It was during [redacted] tenure as AD/RR that the first major effort was made to tackle the problem of Communist China. The DCI had noted in a memorandum to the IAC on 13 August 1952 that serious deficiencies existed in the intelligence effort devoted to Communist China -- among them the inadequacy of the research program. In response, ORR set up a Working Group under the chairmanship of [redacted] of the Industrial Division for the purpose of assembling the readily available information on the Chinese economy as a preliminary basis for an Officewide study, tentatively designated as ORR Project 0.3, *The Economy of Communist China*. By January 1953, ORR had the equivalent of [redacted] analysts working on China's economy compared with [redacted] State. 60/ (b)(3) (b)(6) (b)(3) (b)(6) (b)(1) (b)(3) (b)(1) (b)(3)

* As an indication of the suitability of these appointments, it should be noted that each of these men later served as head of the Office.

To guide the effort on Communist China, [redacted] (b)(3) recruited [redacted] a former OSS (b)(3) (b)(6) analyst who had had extensive experience and long residence in China [redacted] (b)(1) (b)(3)

(b)(3) (b)(6) [redacted] came to ORR in December 1952 and was attached first to the Office of the AD/RR and later to the Planning and Review Staff to plan, coordinate, and oversee the economic research on Communist China.

[redacted] (b)(3) (b)(6)

The initiation of research on Communist China followed a procedure not dissimilar to that on the Soviet Union. That is, the first step was an Inventory of Gaps and Deficiencies in Information on the Economy of Communist China. The next was the assignment of an Officewide comprehensive report (Project 0.3, *The Economy of Communist China*). A China Committee was established under the chairmanship of [redacted] in order to provide a coordinated approach to the study of the Chinese economy and to review research.* (b)(3) (b)(6)

The long-awaited first Officewide project on Communist China was produced in December 1953 as a contribution to NIE 13-54, *Communist China's Power Potential Through 1957*. 61/ [redacted] (b)(1) (b)(3)

* No record of this Committee's activities has been found, and it does not appear to have been effective. In 1954, Services Division set up its own China Committee, which proved a useful device for training and briefing purposes and provided a mechanism for coordinating the Division's research and reporting activities on the Chinese Communist logistical activities along the Formosa Strait during 1955-56 (see VII, C, 1, below). The Services Division China Committee became an area-wide function in August 1962, but it has been inactive since research on Communist China was consolidated in a separate Division (1 November 1967).

(b)(1)
(b)(3)
(b)(6)

[redacted] (b)(1) (b)(3)

C. <u>The Jurisdictional Conflict with the Department of State</u>

Early in [redacted] tenure there appeared the first indications that the Office of Intelligence Research of the Department of State would challenge ORR's primary role in economic research on the Sino-Soviet Bloc. A State Department officer is reported to have claimed in March 1952 at a joint meeting that "we in OIR have always exercised primary responsibility for Soviet budget analysis ... ." <u>66/</u> (b)(1) (b)(3) (b)(6)

This was later described by [redacted] as one of "a series of minor guerrilla actions" between ORR and State, to which was added an instance of competitive hiring by State and a number of occasions on which State attacked economic contributions by ORR to NIE's and other finished intelligence. In a memo to the DDI, [redacted] accused State's intelligence people of "setting themselves up as a Board of (b)(3) (b)(6)

Review demanding as the price of their concurrence step-by-step demonstration of the validity of ORR conclusions." 67/ [redacted] He concluded by predicting that it would ultimately be necessary to amend NSCID 15 so as to exclude State from responsibility for economic intelligence on the Soviet "Orbit" or authority to produce it.

(b)(1)
(b)(3)

The amendment did in fact occur after long negotiations extending through 1953 and 1954. The issue appears to have come to a head over CIA's assumption of responsibility for producing the economic sections of the NIS on Sino-Soviet Bloc countries. In May 1953, CIA advised State, Agriculture, and Interior that it planned to terminate financial support to the production of portions of Chapter VI, Economic (Sino-Soviet Bloc Areas), beginning with fiscal year 1955.* A disagreement ensued with the State Department as to whether CIA would take over the full responsibility for all the

[redacted]

(b)(1)
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economic sections on the Bloc, since State desired to hold on to the introductory sections (Section 60) and the trade and finance sections (Section 65). This desire was an expression of State's position with respect to Bloc economic intelligence in general -- that is, that State should have responsibility for "economic policies, economic organization, overall economic trends, foreign economic relations ..." 69/ while CIA should have the balance (less those military-economic subjects allocated to the Department of Defense). This State Department view was conveyed to the DCI with the plea that the Department must retain responsibilities for the areas indicated because of its policy formulation and operational responsibilities. 70/

[redacted] now the DDI, took the view, on the other hand, that State was cutting the pie so that CIA should be the "parts and sub-assembly contractor" with State remaining the overall "architect," and this was despite the fact that the Agency had in ORR 90 percent or more of the competence in the field. He also objected to State's proposal that the EIC should be responsible for the contributions to National Intelligence Estimates on Bloc capabilities. 71/ (b)(3) (b)(6)

These were, of course, reflections of ORR views on the matter. The Office had previously made the point that fundamental problems would be created by any artificial separation of research responsibility in economic intelligence. State's proposal would, for example, separate research on standards of living from research on consumption goods such as food and agricultural products and research on Soviet plans and goals from research on performance of sectors of Soviet industry. 72/

D. The Drafting of DCID 15/1

On 3 August 1954 the issue was passed to the EIC for solution, and a working group was established to draft language that would be acceptable to all. Five sessions were necessary to produce a final result, with the military members supporting the State Department in its demand for the ultimate responsibility for "political-economic" intelligence. The language that emerged reflects this demand, but in practice it gave working responsibility to CIA in a way satisfactory to ORR.

DCID 15/1, *Production and Coordination of Foreign Economic Intelligence*, was formally issued on 14 September 1954. Its operative paragraph -- Paragraph (2.) -- entitled "Allocation of Primary

Production Responsibilities," as finally accepted by all concerned, was as follows:

a. Production of military-economic intelligence on all foreign countries, including by way of illustration intelligence on military requirements, military materiel production, shipbuilding and ship movements, logistic capabilities, economic vulnerabilities to all forms of military attack, and target system analysis (including specific location, physical vulnerability, and supplementary studies as required), is the responsibility of the departments of the Department of Defense.

b. Production of intelligence on all foreign countries on economic doctrines, political and social aspects of economic organizations and institutions such as trade unions, and on the relationships between political and economic policies, is the responsibility of the Department of State.

c. Production of all economic intelligence on the Soviet Bloc is the responsibility of the Central Intelligence Agency except as indicated herein. In addition, it will supplement the intelligence produced by other agencies by conducting such independent analyses and studies as may be necessary to produce integrated economic intelligence on the Bloc.

d. Production of all economic intelligence on foreign countries outside the Soviet Bloc is the responsibility of the Department of State except as indicated in paragraph 2.a.

e. Despite the above mentioned allocations of primary production responsibilities, there will be areas of common or overlapping interest (including, for example, Soviet Bloc economic

policies, East-West trade, and inland transportation) which will require continuing interagency liaison and cooperation.

f. The existing allocations of production responsibility for National Intelligence Surveys (NIS) are not changed by this directive even though such allocations may, in some instances, be at variance with agency responsibilities specified in paragraphs 2, a, b, c, and d. However, the EIC will from time to time examine such allocations and after consulting with the NIS Committee will make appropriate recommendations.

Subsequent revisions of this basic charter for the production of economic intelligence appeared in DCID 3/1, which has had three versions: 10 June 1958, 25 July 1963, and 23 April 1965. The latter two revisions were primarily for the purposes of recording the establishment of the United States Intelligence Board (USIB) and the transition of functions from the individual service intelligence departments to the Defense Intelligence Agency (DIA), respectively. The initial change to DCID 3/1 on 10 June 1958 added to the areas of common or overlapping interest two new subjects -- "economic cost studies of Bloc military programs" and "Sino-Soviet Bloc economic activities in non-Bloc areas." These subjects were already growing rapidly within the scope of ORR's research activities. In addition,

the subject of Bloc "economic doctrines" was also included as an area of common interest and disappeared from the subsection describing the Department of State's responsibilities.

[redacted]

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[redacted] (b)(1) (b)(3)

F. Accomplishments of the [redacted] Year (b)(3) (b)(6)

Perhaps the most important accomplishment of [redacted] brief tenure as AD/RR was the creation of a management structure for the future. The organizational developments outlined above proved to be both durable and flexible as the economic intelligence mission was elaborated. The selection of leaders for the major components of the Office provided an effective team for the stewardship of this mission for the next 13 years -- until [redacted] (b)(3) (b)(6)

[redacted] (b)(1) (b)(3)

retirement at the end of 1965.* Finally, a research program was laid on which, although overly ambitious, was an extension of the [redacted] decisions (b)(3) (b)(6) about the nature of the economic intelligence task and laid the groundwork for a number of basic analytical projects and the aggregative analysis which characterized the assault on the Soviet economy.

The research program drawn up under [redacted] (b)(3) (b)(6) direction in the fall of 1952 was an attempt to complete the long-overdue projects and fill in the gaps in economic intelligence as revealed by the "Inventory of Ignorance." Each item in the Standard Classification of Economic Activities was analyzed and classified as to its significance in the national intelligence picture, and several hundred projects were accordingly laid on to ensure coverage of all critical and important items and to develop "a balanced, integrated attack by the Office as a whole on the economy of the Bloc." 75/ In addition to the item-by-item research program, seven Officewide projects were scheduled, including the first effort on Communist

* The last of the three Area Chiefs selected by [redacted]

(b)(3)
(b)(6)

China and another major effort on East Germany. The Soviet economy was to be subjected to a regional analysis, a study of strategic stockpiling, an analysis of traffic on the Trans-Siberian Railway, and a major 15,000-hour effort at structural (interindustry) analysis. The last of the Officewide projects was a response to a request from WSEG for a study of input requirements of selected military items. The Communist China and East German papers were ultimately issued as contributions to NIE's, and the others were eventually published in some form or other -- for example, a series of stockpiling reports and regional studies issued over the next several years. The input-output study (interindustry analysis) was published in 1955.*

Thus in [redacted] year the Office had started on a creative analytical effort that went beyond the mere assembly and interpretation of official Soviet economic pronouncements [redacted] ORR was the first national intelligence research organization to make independent estimates of Soviet production of goods and services and to attempt a consolidation of these calculations into

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* See VI, C, 1, below.

national accounts leading to the estimation of gross national product and national income. The effort both benefited from and stimulated academic research in this field, as attested by the later published work of such early ORR luminaries as [redacted]

(b)(3)
(b)(6)

Approved for Release: 2023/06/14 C05972161

Chapter IV

THE ESTABLISHMENT OF THE ECONOMIC RESEARCH AREA

[redacted] and I are both convinced that it will not be easy to ... put ORR on an all-source basis." (b)(3) (b)(6)

[redacted] (b)(3) (b)(6)

CHAPTER IV

The Establishment of the Economic Research Area

When [redacted] moved up to the DDI's office on (b)(3) (b)(6)
23 February 1953 he was succeeded as AD/RR by [redacted] the recently appointed Chief of (b)(3) (b)(6) the Geographic Research Area (GRA). [redacted] had been (b)(3) (b)(6) a professional geographer since receiving his Ph.D. from the University of Michigan in 1933 and had a major role in developing the Department of State's cartographic and geographic research organization during World War II. Late in 1945, most of this organization was merged with the OSS Map Division, including its cartographic facilities, to form the Map Intelligence Division under [redacted] leadership (b)(3) (b)(6) within the Department of State's intelligence organization. The activity of this Division was considered a service of common concern to the intelligence community and, by agreement between State and the then DCI, Admiral Hillenkoetter, the entire Division was transferred to CIA in December 1947. [redacted] remained the head of the cartographic (b)(3) (b)(6) and geographic research effort in this Agency under ORE and later in ORR.

[redacted] tenure as AD/RR lasted until his retirement in December 1965. (b)(3) (b)(6) Thus it covered most of the period of ORR's existence. [redacted] background as a professional geographer rather than as an economist naturally caused him to devote less attention to the substantive leadership of the economic intelligence effort, and the ORR phase of this history from this point on becomes largely a history of the Economic Research Area (ERA) of the Office under the leadership of [redacted] (b)(3) (b)(6) rather than of ORR as a whole. [redacted] considerable contribution to the success of the CIA economic and strategic intelligence effort is perhaps best revealed in his persuasive and diplomatic handling of coordination problems both within and outside of the EIC mechanism, which contributed to the steady growth of the Agency's stature as the prime producer of worldwide economic and strategic intelligence.*

(b)(3)
(b)(6)

(b)(3)
(b)(6)

There were several significant personnel additions during the first several months of [redacted] (b)(3) (b)(6)

* [redacted] career as a geographer and his major contributions to intelligence in this discipline, including an early recognition of the potentials of aerial photography, are beyond the scope of this history. [redacted] (b)(3) (b)(6)

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(b)(3)

tenure. Although established on paper in August 1952, the Economic Research Area was not actually effective as a consolidated unit until [redacted] reported for duty as Chief of Research in May 1953. (b)(3) (b)(6)

[redacted]

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(b)(3)
(b)(6)

Other individuals joining ORR in 1953 who had a significant impact on economic intelligence activities in the Agency included:

[redacted]

(b)(3)
(b)(6)

A. <u>Organizational Developments</u>

The principal organizational chore facing [redacted] (b)(3) (b)(6) was the establishment of the entire ERA as an all-source research operation. The mechanics -- that is, the security clearances, increased physical security measures, and the like -- had largely been accomplished because it had been intended from the start of ORR that all-source intelligence was to be achieved as soon as possible. That this had not been done until [redacted] came to the Office (b)(3) (b)(6) is attributable to the mystique which had developed concerning the special skills believed necessary to exploit communications intelligence. The leadership of the Strategic Division (D/Z) had been active in promoting the idea that these skills were unique and that it would dilute the integrity of the product to scatter the staff -- so carefully recruited and trained -- among the other divisions. These attitudes did much, of course, to foster an *esprit de corps* among the members of the Strategic Division but also to create a strain in its relationship with the other divisions. When [redacted] (b)(3) (b)(6) turned over ORR to [redacted] he pointed out the morale (b)(3) (b)(6) problem posed by the Strategic Division. During [redacted] year as AD/RR, however, he did not feel (b)(3) (b)(6)

that the time was appropriate for its merger with the other economic divisions.

When [redacted] became AD/RR, he determined, with [redacted] blessing, to take such action as rapidly as possible. [redacted] of course, agreed because both believed that the Office product would never be respected as long as it was issued in two versions with frequent disagreement. To delay the establishment of one all-source research center speaking with one voice would only worsen the situation. Having received the green light from [redacted] they moved almost immediately to eliminate the Strategic Division and assign its personnel throughout the ERA, which henceforth would produce only all-source intelligence. 77/

(b)(3) (b)(6) (b)(3) (b)(6) (b)(3) (b)(6) (b)(3) (b)(6)

The dispersal of the people who manned the Strategic Division was a stormy episode in the history of ORR. The division had come to the Office as a unit from ORE's General Division. Its personnel, originally [redacted] had grown to more than [redacted] analysts who were specially recruited and trained in the techniques of using and exploiting communications intelligence. With such a large proportion of relatively new recruits who worked behind barriers physically set apart from the other

(b)(1) (b)(3) (b)(1) (b)(3)

economic divisions with access to their own esoteric and highly classified sources, the division had developed a sense of exclusiveness which the amalgamation would, of course, dissolve. Even though the Strategic Division was never intended to be a permanent fixture but merely a holding operation pending the establishment of an all-source center, its dissolution was not readily accepted by a number of its personnel.

The amalgamation process, involving the relocation of more than [redacted] professionals among (b)(1) (b)(3) the four economic divisions, was worked out between July and September 1953, with the major staff work accomplished by [redacted] Deputy Chief of (b)(3) (b)(6) the ERA, and [redacted] D/Z's chief liaison officer with the National Security Agency (NSA). [redacted] became Chief of a newly formed Support (b)(3) (b)(6) Staff within ERA, whose function it was to continue liaison with NSA and provide guidance to the new all-source research center on the security and technical aspects of the new source material. An addition to the Planning and Review Staff was also effected with the addition of D/Z's Special Support Staff, renamed the Current Intelligence Support Group.

This was the predecessor of the Current Support Staff, which emerged in 1955 on the basis of an agreement between the AD/RR and the AD/CI for the coverage of current economic intelligence on the Sino-Soviet Bloc.*

A small minority of D/Z personnel resigned in protest over the move; others transferred to other Offices in the DDI or moved to one of the other directorates. [redacted] (b)(3) (b)(6) Of those who remained in ORR, a number went on to productive careers, including [redacted] whose (b)(3) (b)(6) efforts to smooth the transition and create an effective all-source center were finally rewarded. Others who did much to promote this goal included [redacted] (b)(3) (b)(6) The latter was put in charge of a training course -- immediately dubbed [redacted] -- to familiarize (b)(3) (b)(6) analysts with the techniques of using the new source material.

Other D/Z alumni who have distinguished themselves in Agency careers, either in ORR or elsewhere,

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* See V, B, 1, below.

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[redacted] (b)(1) (b)(3)

Other organizational developments during the first year of ERA's operation were minor. The Techniques and Methods Division [redacted] (b)(1) (b)(3) was moved from the ERA to the Coordination Area in August 1954. This left four basic economic research divisions as the substantive core of the Economic Research Area, which was able until 1962 to adjust to changes in mission and stringent personnel availability by the shifting of personnel, by occasional revisions of the branch-level structure, and by the establishment of task forces to deal with specific problems.

The following staff structure within the Economic Research Area was also established to provide support:

> The *Planning and Review Staff (St/PR)* was responsible for planning and monitoring the progress of the research program and for making appropriate revisions therein in response to changing requirements. It also drew up policy and procedural manuals and provided substantive advice, assistance, and review to the divisions and the Chief/Economic Research. Liaison with ONE and OCI was maintained in this staff. It also took over for a brief period the personnel and functions of the Economic Accounts

Branch of the Analysis Division -- that is, the maintenance of the Economic Estimates File.

The *Publications Staff (St/PB)* was the successor to the old Reports Division and as such was responsible for editorial review, coordination, security clearance, sanitization, and final publication of ERA reports.

The *Support Staff (St/S)* was established to review source materials being exploited in the ERA with particular reference to Special Intelligence. Accordingly, it maintained liaison with NSA and was responsible for requirements levied on that Agency and for the security handling of the special source material.

B. Research Programming

The second major problem facing [redacted] was to (b)(3) (b)(6) ease the logjam of scheduled intelligence production under the existing research program. The accomplishment of [redacted] "Inventory of Ignorance" (b)(3) (b)(6) had occupied a large part of the research effort of ORR's first two years of operation. Filling the gaps in economic intelligence revealed by this exercise was the purpose of the research program laid on by [redacted] in the fall of 1952 for the (b)(3) (b)(6) period October 1952 - December 1953.* This program proved to be unrealistic. Based on a T/O of about [redacted] professionals and an assumed 47 percent of the (b)(1) (b)(3)

* See III, F, above.

analyst's working time available for research, it called for [redacted] projects to be completed over a 15-month period. In fact, however, the peak number of professionals in the ERA Divisions during 1953 was only [redacted] and it was found that to expect that 47 percent of an analyst's working time would be used for research was an impossible goal.*

(b)(1)
(b)(3)

(b)(1)
(b)(3)

Even if the ERA had been able to do the necessary research, analysis, and writing to produce [redacted] finished intelligence reports in a year and a quarter, the work load imposed upon the Publication Staff and the Printing and Reproduction Division would have been far beyond their capabilities.**

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The unrealistic nature of this attempt at research programming was not long in surfacing. Few projects were ready for editorial processing by their assigned due dates, and those that were ready found a logjam already existing [redacted]

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(b)(6)

[redacted] (b)(1) (b)(3)

Accordingly, [redacted] recognized soon after he took office that the research program would have to be reduced to a realistic level. A new program was drawn up which called for the cancellation of [redacted] projects and the deferral [in many cases tantamount to cancellation] of [redacted]. For the seven-month period from December 1953 through June 1954, [redacted] projects were scheduled, including [redacted] transferred from the previous program. Although a number of these latter projects were also deferred or canceled, [redacted] additional projects were laid on during the course of fiscal year 1954. This program proved much more manageable, and the experience gained in its formulation and execution proved most valuable to the annual program planning process which subsequently became an important feature of the administration of economic intelligence research. By 1 July 1954, of the [redacted] projects laid on in the revised program and subsequently, [redacted] had been completed, [redacted] were canceled, and [redacted] were carried over into fiscal year 1955.

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In several respects, 1953 was a key year in the administration of economic intelligence research. The appointment of a professional economist-administrator as Chief of Economic Research had been quickly followed by the reorganization which eliminated the redundancy of a double-barreled research team attacking similar problems from two vantage points. The program of research was drastically pruned to a realistic level. These administrative measures were necessary forerunners to the new look which was given to ERA's main substantive responsibility, the assault on the Soviet economy. They also set the stage for the development of management procedures within the ERA, enabling it to mount that assault successfully.

Chapter V

MANAGEMENT OF ECONOMIC INTELLIGENCE PRODUCTION

"The fact is that the number of officials and the quantity of work to be done are not related to each other at all...

[redacted] (b)(3) (b)(6)

CHAPTER V

Management of Economic Intelligence Production

By 1954 the formative period of ORR can be said to have ended and a more orderly "developmental" period commenced. What had amounted to an annual change in leadership was over, and the organization was stabilized with only minor changes taking place over the next eight years. In addition, 1954 saw the issuance of DCID 15/1 (14 September) which gave the Agency and the Office clear authority to pursue economic intelligence on the Sino-Soviet Bloc.* From this point on the Office history was to be determined less by internal growing pains and more by external events. It was in 1954, for example, that significant work was started on the economic aspects of Soviet guided missile production, and in the following year Soviet economic activities in the underdeveloped countries of the Free World started to require a significant research and analytical effort in the Office. The brief period of Malenkov's ascendancy in the USSR after Stalin's death was succeeded by an equally brief term for

* See III, D, above.

the two-headed leadership of Bulganin and Khrushchev, and finally by the emergence of Khrushchev alone. Each change of leadership called, of course, for a reassessment of Soviet economic policy, plans, and prospects.

In order to become more responsive to the demands of policymakers and other elements of the intelligence community for economic judgments linked to developing external events, the exercise of managerial skills and planning at the Area level was required. Although it seems to have been the intention of those suggesting the appointment of a Chief of Economic Research in the early 1950's that he would occupy a sort of "ivory tower" in which the substantive issues of economic intelligence would receive the full attention of the Chief and his immediate staff, uninterrupted by administrative duties, this concept proved illusory. The Office of the (Assistant) Director and his staffs, of course, supplied all the essential administrative services, but there was another category of administrative activity, perhaps best described by the term "substantive management," that could be performed only by those directly responsible for the substantive product of the Area. These included the

planning and programming of research activities, the organization of the Area to meet the shifting demands for intelligence production, and the recruitment and training of analysts.

Much of this management activity in the Economic Research Area was from September 1954 until January 1962 under the day-to-day direction of [redacted] (b)(3) (b)(6) [redacted] who succeeded [redacted] as Deputy Chief, ERA, in September 1954. [redacted] had had extensive experience in the economic rehabilitation of Western (b)(3) (b)(6) Europe following World War II [redacted] (b)(3) (b)(6) (b)(1) During his seven and one-half years with ORR, [redacted] was particularly active in the development of the special recruiting effort and in other aspects of personnel management. He also participated, of course, in the substantive review of projects. Although there was no formal division of substantive review responsibilities at the Area level, his background in transportation economics naturally was brought to bear in this field. [redacted] left ORR early in 1962 to join the (b)(3) (b)(6)

[redacted] With his departure, the (b)(3) (b)(6)
post of Deputy Chief, ERA, was allowed to lapse.

A. Research Programming

The tasks laid on by the initial effort at formal research programming in 1952 under [redacted] (b)(3) (b)(6) proved beyond the capabilities of the Area. The second effort, in December 1953, was designed primarily to put that program on a realistic basis. Since it covered only the period through June 1954, the first full-year program for the new Economic Research Area was that put forward for FY 1955 (July 1954 to June 1955).

The FY 1955 program was built around three basic factors. These were (1) anticipated NIE requests; (2) the newly acquired responsibility for the production of NIS economic chapters (Chapter VI) for all Sino-Soviet Bloc countries; and (3) the recommendations of the panel of consultants who met with ORR in the spring of 1954. The first two of these factors became, in fact, the bases for program planning for the next decade, while the third, which consisted of substantive suggestions, also influenced the thinking behind research planning for a considerable period.

* See IV, B, above.

From FY 1955 through FY 1967, the annual research program planning exercise was an important ERA management activity involving the Ch/ERA, D/Ch/ERA, St/PR, the division and branch chiefs, and often the analysts as well. In retrospect, the procedures and the programs themselves appear to be excessively detailed, but the unfortunate logjam and agonizing reappraisal created by the initial programming effort for calendar year 1953 undoubtedly played a role in the development of these procedures. Then, too, programming seemed the only way to assure that adequate time was reserved for the increasing number of anticipated support functions to which the Area was becoming committed.

Planning for the economic research program for each fiscal year began in the preceding January. The known and anticipated direct support contributions for the coming fiscal year to NIE's, NIS's, DDP, the export control program, the USIB Committees, and other elements of the intelligence community were compiled by the Planning and Review Staff as a matter of first priority. Early in February this compilation of direct support requirements was provided to each branch of the ERA to ascertain its estimated requirement of research time for such

commitments. Meanwhile, the Chief of Economic Research and the Division Chiefs reviewed suggestions for Areawide projects, and a selection was made of those which appeared to be most useful. The branches then estimated the research time they would require for their portions of the Areawide projects. Recognizing the need for allowing a substantial amount of unassigned research time for anticipated but as yet unidentified support projects, each branch then developed proposals for self-initiated branch projects in areas that appeared to require attention. These three elements -- support projects, Areawide projects, and self-initiated projects -- thus constituted the proposed branch programs which were submitted for review early in March.

During March the Chief of Economic Research met with all professional members of each branch to discuss the proposed programs. At this time the performance of the branch during the current fiscal year was discussed, the program for the remainder of the current fiscal year was reviewed, and the proposals for the next fiscal year were critically examined. The Chief of Economic Research then decided what projects would be included in or excluded from the branch program.

The Area research program for the coming fiscal year was then assembled with supporting text and tables, and the draft was submitted first to the Chief of Economic Research and then to the AD/RR for approval. This draft was then distributed to the DDI, to other components of the DDI, and to the DDP for review and comment. After such comments were received, they were circulated to appropriate elements of the Economic Research Area for study and consideration in preparing the final program. The target date for publication of the program was 1 July.

Although the program was considered flexible and estimates of research time required for individual projects were only approximate, the several categories of allocated research time followed a pattern characterized over the years from 1955 to 1965 by 25-35 percent for NIE contributions, 10-20 percent for NIS contributions, 10-20 percent for miscellaneous support projects, and 30-40 percent for self-initiated projects. Each category presented its own characteristics and problems as described below.

1. NIE Production

There were several major NIE's that recurred with sufficient regularity to warrant programming in advance. These included a number on the Soviet Union -- not only the annual general overview but also others addressed to specific subjects such as the Soviet economy, Soviet military capabilities, long-range attack capabilities, etc. China and the European Satellites also were almost certain to receive annual attention, as were a number of important Free World countries that had significant economic contacts with the Bloc countries. Unscheduled NIE's in response to changing international problems had to be allowed for as well. In short, support of the Office of National Estimates usually formed the core of the ERA's research program -- not only in allocation of research time, ranging from one-quarter to one-third, but also in setting the tone of the remainder of the program. This reflected the belief that the estimates -- programmed and unprogrammed -- provided the best guidance within the intelligence community to the major policy concerns of the government.

The annual Soviet estimate, calling for an overall assessment of the economy, typically evoked an Areawide contribution, fashioned by the USSR Branch of Analysis Division (A/U) from subsidiary contributions of all the remaining branches in the ERA, except the European Satellites and Far East Branches. The programmed workload totaled thousands of hours. For example, the scheduled allocation of man-hours for ORR's economic contribution to NIE 11-4-58, *Soviet Capabilities and Probable Course of Action Through 1963* [redacted]

(b)(1)
(b)(3)

[redacted] (b)(1) (b)(3)

[redacted] The resulting estimate carried only seven and a fraction pages of economic material (plus two paragraphs in the summary). 80/ This drastic distillation of wisdom should not, however, be regarded as the labor of mountains in the bringing forth of a mouse.* The research effort usually resulted in other published reports. In this case, subsequent reports on Soviet economic prospects for the Seven-Year Plan period 81/ and on the 1957 industrial reorganization 82/ were issued, and a number of branch reports on individual sectors of the Soviet economy can be attributed directly or indirectly to the efforts put forth for the estimate. The judgments which found expression in the public speeches and Congressional

* ORR's first major NIE contribution, Project 6-51, *The European Satellite Power Complex* [redacted] (b)(1) (b)(3) The resulting NIE, No. 33, *Soviet Control of the European Satellites* (short title), 7 Nov 51, TS, carried two and one-half pages of economic material.

testimony of the DCI concerning Soviet economic growth during this period also resulted from these efforts.* Thus the "spin-off" from the more than (b)(1) (b)(3) [redacted] man-hours devoted to the annual Soviet estimate was considered to have justified the effort. A similar pattern characterized the programmed research effort on Communist China and the European Satellites and adds weight to the judgment that the NIE support function of the ERA provided the core of the research program.

In addition to programming NIE contributions for the annual major country studies and Bloc military capability studies, ERA also programmed research projects on other areas and subjects which, in its judgment, could give it the potential to respond to ONE or other consumer requests which might be called for on an irregular basis or which might arise from chronic trouble-spots (for example, in the 1950's Berlin and the Taiwan Straits). In the FY 1961 program, for example, an Areawide project had been laid on to study Communist China's long-term dependence on outside areas for its industrial development. The developing breach in Sino-Soviet relations made

* See VIII, below.

it apparent that a brief and more timely assessment of China's dependence on the Soviet Bloc would be needed. Such a study was accordingly scheduled; it drew, of course, on research already in progress for the longer range study.

2. NIS Production

The second major support activity taken on by the ERA that had to be allowed for in the annual research program was the production of Chapter VI, Economic (Sino-Soviet Bloc Areas) of the National Intelligence Survey. This responsibility was formally transferred to CIA from State, Agriculture, and Interior on 1 July 1954 as a logical development of the Agency's preponderant role in the production of economic intelligence on the Bloc.*

The programming of NIS production should have created no particular problem for ERA's planners, because the contributions were scheduled well in advance by OBI's planners.** However, the

* It was State's attempt to retain responsibility for Sections 60 and 65 (*Introduction and Trade and Finance*) that led to the adoption of DCID 15/1, spelling out responsibility in this field. See III, C and D, above.

** The Office of Basic Intelligence (OBI) had been created in 1955 from ORR's Basic Intelligence Division following the recommendations of the Clark Committee.

amount of research time allocated to this activity fluctuated between 11 and 18 percent, and thus it could be a considerable burden to those branches that were heavily committed elsewhere or that needed a large segment of unallocated time to cope with "flaps." Efforts were, of course, made to phase the NIS commitments among the producing branches and to schedule their production throughout the fiscal year consistent with other requirements for maintaining systematic coverage of countries and economic sectors within the purview of the Area. The problem was compounded by the fact that many of the sections depended on supporting contributions from the military intelligence agencies. Compliance with OBI's production and maintenance schedules involved firm deadlines, of course, but such deadlines had a degree of artificiality compared with the urgent needs of important policymakers. The fact that a year or more might pass between the submission of an ORR contribution and the distribution of the published NIS made it difficult to convince the hard-pressed analyst that OBI's deadlines were all that important.

The nature of the NIS also proved a problem for ERA's analysts in the early period of this

program. Comprehensive descriptive coverage with a minimum of speculation, estimation, or forward projection was what the OBI editors wanted. The ERA analyst and his superiors, on the other hand, were attempting to produce more policy-oriented and problem-solving papers, once the "Inventory of Ignorance" approach had been shelved. The difference in point of view was well described by [redacted] in a memo to [redacted] setting forth the difficulties that ERA was having in producing NIS manuscripts acceptable to OBI:

(b)(3)
(b)(6)
(b)(3)
(b)(6)

[redacted]

(b)(1)
(b)(3)

[redacted]

(b)(1)
(b)(3)

Differences with OBI were gradually resolved, as OBI gained an understanding of the problems of dealing with closed economies and as ORR familiarized itself with OBI requirements. The latter was achieved in part by the development of a small number of NIS specialists -- analysts who acquired the knack of research and writing according to the NIS format. A special NIS coordinator became a permanent fixture on ORR's Publications Staff and assisted in isolating the problem and, to a degree, insulating the production of NIS sections from the rest of the work of the Area. As NIS production became primarily a maintenance program, the difficulties of complying with the OBI format requirements also became less burdensome. NIS production was found to be a useful way, particularly in the 1960's when ERA went worldwide, to indoctrinate

new analysts in intelligence production and to give them factual background on their assigned countries as a prelude to more analytical work.

3. Other Contributions

Other customers whose anticipated needs were taken cognizance of in the annual program included:

(1) The EIC, particularly for the publications covering economic [redacted] activities and the China trade and transport studies; (b)(1) (b)(3)

(2) Other IAC/USIB committees, such as the Joint Atomic Energy Intelligence Committee (JAEIC) and the Guided Missiles and Astronautics Intelligence Committee (GMAIC);

[redacted] (b)(1) (b)(3)

(4) The Directorate of Intelligence of the US Air Force (ACSI, USAF) for targeting studies; and

(5) The economic defense community.

Direct support contributions and reports designed to improve the Area's support capabilities typically made up 80 percent of its programmed research. Although welcoming requests for such support within its area of responsibility, the Area found that on occasion such requests could require research so time-consuming as to disrupt

its ability to carry out projects of equal or higher priority. Certain economic defense community requests were of this character, while Air Force targeting studies could also assume major proportions. Thus a major management responsibility was negotiating with requesters to tailor their requirements to the Area's capabilities, enabling it to meet their needs within the reserve time set aside for such requests.

4. "Self-Initiated" Projects

Rigidity in the economic research program was a danger which required considerable effort to avoid. The potential for it existed in the need to program in sufficient detail to assure that all components and analysts were usefully and fully occupied. At the same time it was necessary to retain the flexibility to respond either to external requests for support or to internally perceived needs for new attacks on intelligence problems within the assigned fields of responsibility. Analysts were encouraged to put forward ideas for such new approaches not only in the annual program preparation but as they might suggest themselves from current developments throughout the year.

Thus requests for support or new developments frequently made necessary the postponement and occasionally the cancellation of programmed research, when the need arose.

The 20 percent of programmed research that was "self-initiated" was of necessity low on the priority list and most subject to postponement or cancellation. Yet this often consisted of the basic research in depth designed to apply more sophisticated methodologies and measurement techniques to the target economies. The search for more accurate indexes of gross national product and industrial production, for meaningful ruble-dollar ratios, and the like went on continually in this category of programmed research.

The postponement and cancellation of programmed research became more of a problem as policy support on a crash basis became a common phenomenon of the 1960's. By 1967, the whole programming activity was coming into question, as projects and even complete branch annual programs had to be abandoned. With certain exceptions the Area was no longer able to program with any degree of assurance. At the same time the long-ranging exhaustive study occupying thousands of man-hours was no longer

possible (or in any great demand), so that programming except for the established commitment was less necessary. Accordingly, following the issuance for FY 1968, the annual programming exercise was abandoned.

5. The S-Project Series

A simple procedure for management control of the unscheduled support projects was devised in 1955 with the institution of the S-project series. Requests for support came to the ERA in a variety of ways; properly they would come through channels, but often an analyst would be called by a desk officer in State, or elsewhere, with whom he had had a personal contact, and a request for support would be laid on in this way. In order that command authority over and a proper record of this growing activity could be maintained, it was required that every request for support be approved at the division level and channeled through or reported to the Planning and Review Staff before actual work was begun. That staff would authorize the work or submit for Ch/E's approval those that appeared unusually burdensome, lengthy, or significantly out of the normal pattern of ERA responsibility. The

assignment of an "S-number" by the staff was the formal signal that the project could proceed.

Between 10 October 1955 and 30 June 1972, [redacted] S-projects were authorized. Details with regard to S-1 have not been found; S-2, initiated on 10 October 1955 and forwarded on 20 October, was a study requested by a Congressional subcommittee and transmitted through the Bureau of the Budget for an evaluation of the quality and adequacy of published foreign economic statistics. 84/

(b)(1)
(b)(3)

The roster of S-projects undertaken since that time constitutes a vivid record of the ERA's support activities with respect to the economic intelligence interests of the government [redacted] Although the formal project always was the main preoccupation of the Area, and the list of such projects provides an accounting of most of the research and reporting activity by the Area, it does not reflect the almost infinite variety of intelligence problems with which the Area was faced. No summary statement can do this variety justice nor can it reveal the diversity of requesters involved. The latter ranges from the President of the United States [redacted]

(b)(1)
(b)(3)

(b)(1)
(b)(3)

[redacted] (b)(1) (b)(3) Many of the substantive contributions discussed in ensuing chapters of this history were made under this category of activity, including the great majority of projects undertaken in support of the DDP and many of the "crash" projects undertaken in times of international tension, such as the Cuban missile crisis, the Sino-Indian border war, the flare-ups between the Arabs and the Israelis, and, of course, the Vietnam War.

6. External Research

The economic research activities of ORR have been supplemented and supported since its early days by a number of external research arrangements. These have been designed primarily to utilize special professional competence or exploit accumulations of data with resources not readily available to the Office. The most significant of these arrangements are described below.

[redacted] (b)(1) (b)(3)

(b)(1)
(b)(3)

b. Foreign Population and Manpower Studies

This project, performed by the Bureau of the Census, Department of Commerce, became operative in 1951 [redacted] (b)(1) (b)(3)

The project was designed for the collection and analysis of data on the population of selected foreign areas, principally Communist countries, to provide (a) population estimates and projections, by age and sex, for individual countries; (b) detailed studies of education and labor force developments in selected countries; and (c) basic data on population and labor force characteristics.

[redacted] (b)(1) (b)(3)

[redacted]

(b)(1)
(b)(3)

B. Organizational Adjustments

From the establishment of the Economic Research Area in 1953 until its demise in 1967, its intelligence production responsibilities grew steadily while its authorized personnel strength dwindled. Accordingly, the ERA was repeatedly called upon to reallocate its personnel resources, eliminate lower priority functions, and reprogram its research effort.

During the first five years the major new functions absorbed by the ERA and the numbers of people assigned to their accomplishment were as follows:

[redacted]

(b)(1)
(b)(3)

Table 1

Assignment of Personnel to New Responsibilities of the Economic Research Area a/

New Responsibility	Personnel Assigned to Responsible Component	Estimated Supporting Personnel in Other Branches	Total ERA Personnel
Military cost analysis	[redacted]		
Nuclear energy			
Guided missiles			
Economic penetration			
NIS program			
Current support			
Total			

(b)(1) (b)(3)

a. 86/. Including clerical personnel.

This total of [redacted] persons assigned to new responsibilities combined with a decline in personnel [redacted] was accomplished by internal shifting which retained the basic divisional structure, but involved some branch and staff changes and considerable reassignment of personnel. (b)(1) (b)(3) (b)(1) (b)(3)

1. Establishment of the Current Support Staff

The principal organizational development of 1955 was the establishment of the Current Support Staff. The function of support to OCI and the production and review of current economic intelligence had been carried out initially within

the Special Support Staff of the Strategic Division and subsequently by a section of the Planning and Review Staff when that division was abolished in September 1953. The delineation of responsibility for the production of current economic intelligence on the Sino-Soviet Bloc between ORR and OCI had remained fuzzy, however, and [redacted] was eager to (b)(3) (b)(6) have the duplication of effort eliminated. He accordingly directed the two offices to devise a means of more effective collaboration. The solution arrived at and put into effect on 31 May 1955 for a six-month trial established the Current Intelligence Support Staff (CSS), which included the former Current Intelligence Support Group of (b)(1) (b)(3) the Planning and Support Staff and [redacted] professionals (b)(1) (b)(3) from OCI: [redacted] from the Soviet Staff and [redacted] from (b)(1) (b)(3) the Far East Division. OCI set up an Economic Advisory Group, which was located physically next to CSS, to provide guidance on OCI's format and presentation standards, and to levy requirements for and coordinate ORR's current economic intelligence product for inclusion in OCI publications. CSS not only produced current economic intelligence on its own but also provided the mechanism for the coordination and publication of the current economic

intelligence product of ERA's line divisions and branches. In addition to the publication of this material in OCI publications as appropriate, the staff undertook the issuance first of Current Support Memoranda (CSM's) and later of Current Support Briefs (CB's).

This arrangement was found to work satisfactorily and was made permanent early in 1956. The first chief of the Current Support Staff was (b)(3) (b)(6) [redacted] who subsequently left ORR to become a division chief at NPIC. He was succeeded by (b)(3) (b)(6) [redacted] one of the OCI transfers and a former ORE and ORR analyst. [redacted] served (b)(3) (b)(6) as CSS Chief from 20 October 1957 until 8 September 1968 when he transferred to Central Reference Service, [redacted] (b)(3) (b)(6)

CSS operated with about [redacted] professionals (b)(1) (b)(3) and supporting clericals organized into regional groups covering the internal affairs of the USSR, China and other Asiatic Communist countries, East European Communist countries, and Communist international economic activities. Free World economics have not been undertaken by CSS. The staff, however, processed and presented to OCI for inclusion in its

publications current economic intelligence prepared by OER Free World analysts. The staff also maintained the channels for coordination of relevant articles prepared by OCI, OSI, and friendly foreign intelligence organizations. ORR, and later OER, participation in the indications and warning process also was lodged in the staff, with the assignment of weekly attendance at the USIB Watch Committee where relevant economic indicators are presented and reviewed.

During the 1950's and early 1960's, when Current Support Memoranda and Current Support Briefs were authorized publication categories, [redacted] (b)(1) (b)(3) a week were produced, while articles, contributions, and miscellaneous items for OCI, the National Indications Center, and the various ad hoc task forces established in times of crisis reached more than [redacted] (b)(1) (b)(3) Staff-produced items appearing in OCI-administered daily and weekly publications numbered [redacted] (b)(1) (b)(3) with some variation reflecting international crises involving economic functions. In 1970 the number had grown [redacted] (b)(1) (b)(3) the increase largely a result of staff-processed items on the Free World produced by OER analysts. In addition, large numbers

of occasional items were produced annually; briefing notes for the White House, Congressional hearings, and the DCI formed the most significant portions of this material. 87/

2. Operation "Dior"

The "Dior" Committee, consisting of the Chief and Deputy Chief, ERA, and the four division chiefs, was set up in June 1955 primarily in response to an official denial of the Area's FY 1957 budget request for additional personnel. In fact, a 5-percent cut had been ordered in the personnel ceilings of DDI Offices, and the committee was accordingly set up to review the possibilities of internal adjustments to respond to changing intelligence priorities within the existing personnel restrictions. Its meetings in the summer of 1955 were concerned with a review of priority responsibilities and a reevaluation of the FY 1956 research program in terms of these responsibilities. It recommended a [redacted] professional-clerical ratio, which led to the reclassification of [redacted] professional vacancies in the area to clerical status.* It then proceeded to consider the

(b)(1)
(b)(3)
(b)(1)
(b)(3)

* The ERA objective was [redacted] professionals and [redacted] clericals. As of 21 October 1955, the area was [redacted] professionals over and [redacted] clericals under the ceiling. The T/O [redacted] was down [redacted] in the spring of 1955.

(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)

rejuggling of missions, workloads, and strength of individual branches in order to perform the re-assessed priority functions.

In May 1956 the Committee sent to the AD/RR a proposal for a new division in the ERA. This division was to bring together the existing Aircraft Branch, Shipbuilding Branch, and Weapons and Ammunitions Branch of the Industrial Division, the Military-Economics Branch of Analysis Division, the ad hoc Guided Missiles Staff (converted into a branch), and a new group to work on the economic aspects of the Bloc nuclear energy program. The achievement of unified direction and easier communication between the elements concerned with the military aspects of the Bloc economies were the major justifications for the proposal, but it was also urged as a better means of enabling the DCI to carry out his responsibility for evaluating military-economic intelligence produced by the service agencies. In addition, it would make it more convenient to concentrate on the Soviet Ministry of Defense, which was the focal point for decision-making on matters affecting economic aspects of Soviet military programs. Although pains

were taken to assure that the work of the new division would supplement rather than duplicate or compete with that of the armed service intelligence organizations, it was felt by the AD/RR, and apparently by the DDI as well, that the services might interpret this development as an attempt by CIA to assume large responsibilities in their fields of primary concern. Accordingly, the AD/RR suggested instead that a deputy chief in the Industrial Division be assigned primary responsibility for the miltiary branches of that division and for loose liaison with the Military-Economics Branch of D/A. A Guided Missiles Branch and Nuclear Energy Staff would be created under his direction. 88/ These suggestions were effected soon thereafter, and the Military-Economics Branch was transferred to the Industrial Division the following year. [redacted] (b)(3) (b)(6) was made Deputy Chief of the Division with prime responsibility for the military effort. The following spring (March 1957), he was promoted to Chief of the Division, continuing to give his major attention to the military side of the division's activities.

Among the major results of the "Dior" approach in 1956/57 to the Area's personnel problem

was a reduced ratio of staff to line personnel. The Support Staff was consolidated with the Project Control Staff and put under the AD/RR. St/PR was reduced in function, with its elimination from the substantive review process and with the Accounts Group and NIS Coordinator transferred to St/PB.

These changes in the ERA were accompanied by the abolition of the Coordination Area, which had lost its Basic Intelligence Division when OBI was set up as a separate office in 1955, and now lost its Economic Defense Division when this activity was cut back and assigned to the new Trade Controls Branch in the Services Division. The remaining Coordination Area functions, [redacted] (b)(1) (b)(3) the EIC Secretariat, were attached as staff functions to the Office of the Assistant Director. 89/

The pressure of demands to expand the research effort on the Soviet guided missile program was again felt in the spring of 1958. The requests for an expansion of T/O to cope with this augmented effort were denied, and -- as was the case on several similar occasions -- the Office was directed to undertake the proposed expansion of activities by drawing any necessary new positions from the existing T/O. In order to achieve the goal of

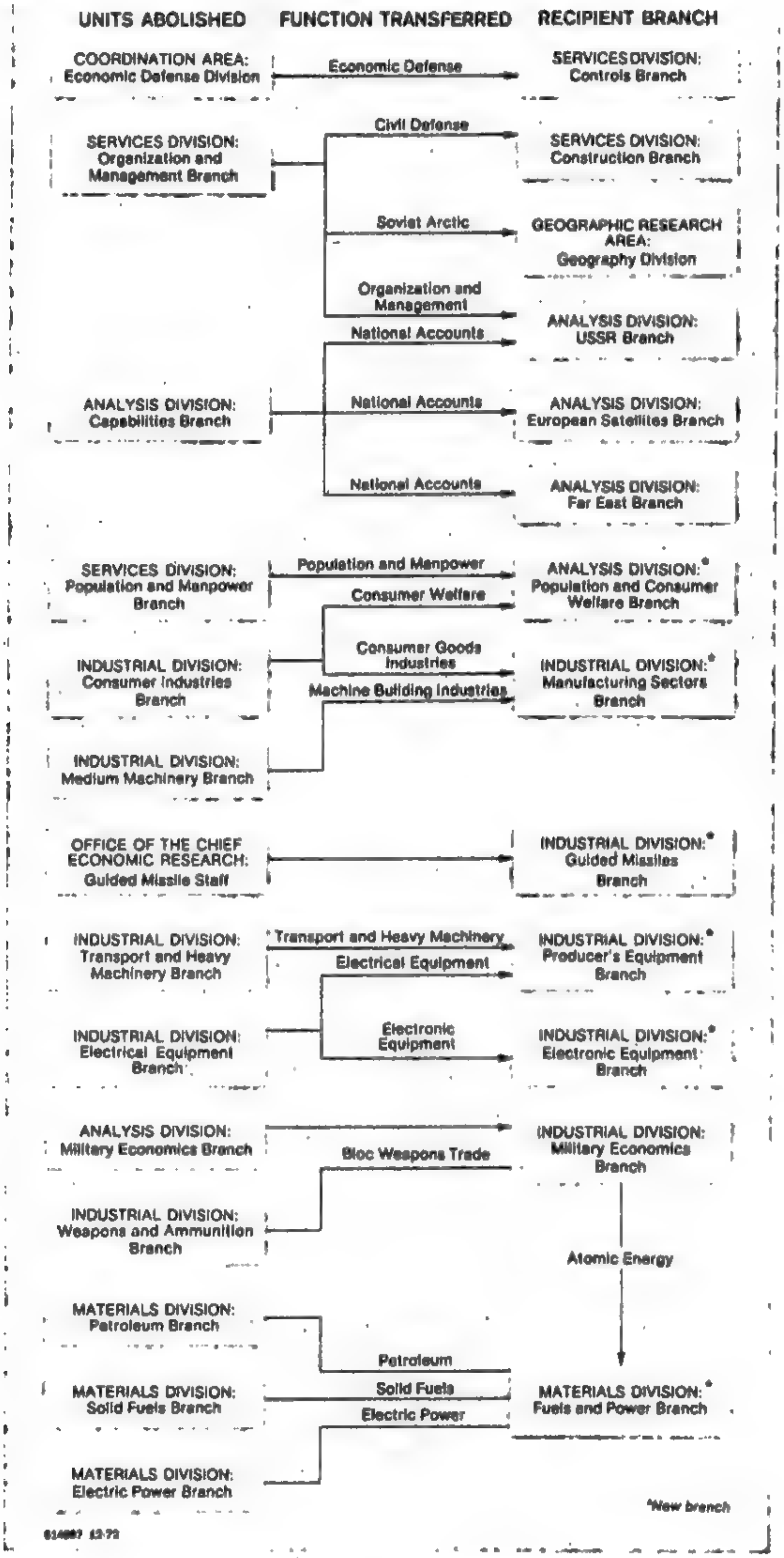
raising the Guided Missiles Branch from [redacted] professionals and [redacted] clerical to [redacted] professionals and [redacted] clericals, it was necessary to relocate a number of functions, abolish six branches, and establish three new branches for a net loss of three. This reorganization, carried out in the spring of 1958, and the several that preceded it under Operation "Dior" are summarized in the accompanying diagram (Figure 1, page 127).

(b)(1) (b)(3)
(b)(1) (b)(3)
(b)(1) (b)(3)
(b)(1) (b)(3)

This type of reorganization was characteristic of the means adopted to meet the changing priorities in economic intelligence over the years of ORR's existence. The personnel ceiling reached its peak early in the life of ORR [redacted] and thereafter was progressively reduced. The constant review of priorities and the elimination or reduction of functions that resulted has undoubtedly meant on occasion the neglect of subjects of intelligence interest, but it has also meant that high-priority needs have been responded to promptly and that declining needs have been as readily eliminated. "Agonizing reappraisals" have turned out in retrospect not to have been so agonizing, and, in the process, the Office maintained and regenerated a research organization alert to and capable of

(b)(1) (b)(3)

REORGANIZATIONS EFFECTED BY OPERATION "DIOR" 1956-58



responding to national intelligence objectives as they have developed.

C. Personnel Management

By far the most important and difficult management problems of the ERA have been the recruitment, development, training, and retention of skilled professional personnel. This was true in [redacted] day, when nobody really knew how many (b)(3) (b)(6) people were needed for the job nor what might be the appropriate mix of engineers, commodity and functional technicians, area specialists, and academic economists. It has remained true throughout the timespan covered by this history.

The professional cadre inherited from ORE was, of course, an unknown quantity to [redacted] He (b)(3) (b)(6) indicated after his departure from the Office that he had been offered a free hand and could have "swung a heavy axe," but he did not want to fire indiscriminately until he knew what kind of people he had, what kind and how many he would need, and whether he could recruit fast enough to keep the organization going. He thought, however, that the personnel problem had pretty well worked itself out during his brief tenure and " ... aside from the D/Z problem, he considered that he had a good

team in action not long after he had begun to work." 90/

Others were, however, less happy with the situation. [redacted] whose influence in the development of the Area's organization has been set forth above,* advised [redacted] at the start of the latter's tour as AD/RR that: (b)(3) (b)(6) (b)(3) (b)(6)

> One of the outstanding weaknesses of ORR is a deficiency of top flight research directors, particularly professional economists -- this deficiency in research leadership is in part traceable, I believe, to use of the wrong criteria for choosing supervisory personnel. A Chief of a commodity branch, for instance, is usually chosen on the basis of his technical competence, not his ability to direct research in conformity with office-wide objectives. 91/

[redacted] was in this instance giving expression to a point of view about the technical specialists prevalent among the professional economists in the Office, while, as might be expected, the technicians and engineers tended to hold equally gloomy views about the theoreticians. The fact is, of course, that both types were needed; there were wide areas in the Office's mission, particularly in the "Inventory of Ignorance" days, that (b)(3) (b)(6)

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* See III, A, above.

needed technical, engineering, and industrial knowledge; equally, the assessment of overall economic strength needed the tools of modern economic analysis. The problem was to get enough good people of both types. The engineer who is happy doing "jigsaw puzzle" research and who can write up his findings with clarity and conciseness is a rare commodity, while the theoretical economist who can adapt his research interests to the policymakers' needs and write for the educated but non-professional busy reader is not easy to find either. Deadwood was found in both camps, but more serious than getting rid of it were the problems of attrition of good people and the difficulties of recruiting enough replacements to maintain production. ERA attrition in the mid-1950's, through transfer, retirement, resignation, and manpower levies (for high-priority projects elsewhere in the Agency or Community), averaged [redacted] professionals per month, or [redacted] per year. Since only about [redacted] applicants put in process could be counted on to survive processing, [redacted] applicants per year were needed to keep the ERA at strength. This was far more than the regular Agency recruiting activity

(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)
(b)(1)
(b)(3)

could provide. Even though much of the attrition was accompanied by declines in the authorized personnel strength of the Area [redacted] in 1953 to [redacted] in 1958*), a concerted effort was necessary to keep the pipeline full and to bring on board enough professional personnel to carry out the Area's mission.

(b)(1)
(b)(3)

1. Special Recruiting

In response to this problem, the Area in the fall of 1954 launched a program of campus recruiting visits by senior ORR economists in company with the Agency's professional recruiters. [redacted]

(b)(1)
(b)(3)

As the result of this experience, the program was considerably expanded in the following year, when six teams of recruiters visited 37 campuses. The program has been pursued since that time with varying degrees of emphasis and has developed into the principal means of attracting young talent for the Office -- although in quantitative terms it did not match those turned up by regular recruitment

* Figures include clericals.

activities, the Career Trainee (formerly Junior Officer Trainee) program, internal transfer, and applicant-initiated overtures.* Nevertheless, the proportion of successful entries-on-duty to individuals interviewed under the ORR program has remained low.

Quite aside from the "Agency-image" problem which plagued recruitment in the 1960's, there were chronic problems associated with the market for economists -- during most of the period covered by this history, competition for good junior economists was keen, and the Office was hampered by unfavorable salary differentials, long delays for security clearance, and the secrecy problem, which led many graduate students and their professional mentors to reject Agency employment because it appeared to establish a barrier to achieving professional recognition through publication. It was for the latter reason that from 1958 through 1967 the Office pinned high hopes on its developing program of unclassified dissemination. [redacted]

(b)(1)
(b)(3)

* See Table 2.

Table 2

Recruitment for the Economic Research Area 93/
1956-70

Year Ending 30 Sep	Special Recruits: Put in Process	Special Recruits: Entered on Duty	Regular Recruits: Put in Process	Regular Recruits: Entered on Duty
1956				
1957				
1958				
1959				
1960				
1961				
1962				
1963				
1964				
1965				
1966				
1967				
1968				
1969				
1970				
Total				

(b)(1)
(b)(3)

[redacted] (b)(1) (b)(3)

The use by ORR of senior officers for recruiting purposes occasionally came under attack within the Agency as expensive and time-consuming -- as indeed it was. In response to one of these attacks, however, [redacted] wrote: (b)(3) (b)(6)

[redacted] (b)(1) (b)(3)

2. Training

No matter how well qualified or trained the new analyst might be, it proved to be invariably necessary to provide some measure of internal training. Indoctrination courses by the Office of Training were, of course, a significant part of this process, but ORR itself also undertook to provide research aids, procedural guides, and internal training courses of its own as supplements to the formal Agency courses.

As part of the internal training and guidance of analysts, the Office found it necessary to issue a series of research aids during the early years. Some of the titles, as set forth below, are sufficiently descriptive to show the range of subject matter covered.

[redacted]

(b)(1)
(b)(3)

(b)(1)
(b)(3)
(b)(6)

Approved for Release: 2023/06/14 C05972161

[redacted] (b)(1) (b)(3)

Thus by the mid-1950's there existed a small but useful collection of intra-Office guidance material, designed to aid the analysts and to develop standards of research, analysis, and presentation for the Area's published product. The process of review of economic intelligence papers, involving successively the section chief, branch chief, division chief, area chief, and Publication Staff,* was, of course, in itself an important tool for the training and guidance of analysts.

Among the internal training courses developed were (1) [redacted] designed to (b)(3) (b)(6) train analysts [redacted] (b)(1) (b)(3) [redacted] (2) starting in November 1955 a course in economic intelligence writing, given by [redacted] head of the Publication (b)(3) (b)(6) Staff from 1955 until his retirement in 1965; and

* The elimination of the Planning and Review Staff from this process was gradually achieved during the first several years of [redacted] incumbency as (b)(3) Chief, ERA. The staff was progressively reduced (b)(6) in size and functions until by 1958 it consisted (b)(1) of only [redacted] professionals and [redacted] clericals con- (b)(1) (b)(3) cerned with program planning, recruiting, record- (b)(3) keeping, and ad hoc staff assistance to the Chief, ERA.

(3) a course in economic statistics, given by a number of different senior ORR economists, including [redacted] and [redacted]

(b)(3)
(b)(6)

(b)(3)
(b)(6)

[redacted]

(b)(1)
(b)(3)

[redacted] (b)(1) (b)(3)

In 1962 an expansion of ORR's specialized training program was inaugurated. A number of the ERA's senior employees were primarily skilled in technical specialities, and such economics training as they had, if any, was at the undergraduate level. Furthermore, recruiting graduate students in economics was not sufficiently successful to "keep the pipeline full" and a number of promising B.A.'s were accordingly being hired. It was decided, therefore, to make graduate training in economics more readily available to those who could benefit from it. [redacted] (b)(1) (b)(3) an M.A. program in economics was offered to appropriate analysts, with certain "core" courses being given on an after-hours basis at the Headquarters Building. Instructors for these

courses, recruited from ERA's senior economists, included [redacted] (b)(3) (b)(6) [redacted] and others.

As in the field of recruiting, ORR's insistence on developing and maintaining its own programs of analyst training had to overcome objections from some other elements in the Agency. In this case also, the need for special treatment because of the nature of its mission was the argument of the Office in response to these objections. The whole issue of the "specialist" versus the "generalist" and the struggle to assure that the specialist, whether economist, geographer, scientist, or what-not, be recognized as a full-fledged career intelligence officer were major concerns of both [redacted] (b)(3) (b)(6) and they expressed their views eloquently on the matter. For example, [redacted] in commenting on an (b)(3) (b)(6) Inspector General's Survey of the CIA Career Service wrote:

[redacted] (b)(1) (b)(3)

(b)(1)
(b)(3)

[redacted] was, if anything, more eloquent on the subject: (b)(3) (b)(6)

[redacted] (b)(1) (b)(3)

The recruiting and training programs and other personnel management efforts of the Office must in the final analysis be judged not only by the quality of the Office product but also by the caliber of people who have emerged. Both of these criteria are, of course, matters of subjective judgment, but the constantly growing demand for ORR and OER support is one measure of the product quality, while the quality of personnel may be indicated to a degree by their successes within the organization. As of the time of writing, every line supervisor, save one, in OER had served in the Office or its predecessor at the analyst level. Other former ERA analysts now serve as the DDI and the Assistant DDI. Two sit on the Board of National Estimates. Others occupy key positions in other DDI Offices, including one Director and two Deputy Directors. The Office is also well represented at Agency management levels, with a number of its graduates in key positions in the Office of Planning, Programming, and Budgeting. Note should also be made of the considerable number of ORR-recruited people who have transferred to and had successful careers in other Directorates. This record of career development and achievement, both within

and outside the Office proper, constitutes the best evidence of the sound judgments that have guided Area personnel practices in spite of occasional opposition and the considerable difficulties that existed in the employment market during the period of this history.

Chapter VI

THE ASSAULT ON THE SOVIET ECONOMY

"The Government are very keen on amassing statistics. They collect them, add them, raise them to the nth power, take the cube root and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the village watchman who just puts down what he damn pleases."

-Sir Josiah Stamp
Inland Revenue Department (England)
1896-1919

CHAPTER VI

The Assault on the Soviet Economy

A. Introduction

During the Stalin era -- a period of maximum secretiveness in the Soviet Union -- the major effort in economic intelligence by ORR was the development of production and related estimates for the whole gamut of output from Soviet industry. Even in those cases where the Communist countries released production data, independent checks on their accuracy were believed to be necessary. A variety of collection methods were developed in order to obtain data on which production estimates could be based. [redacted]

(b)(1)
(b)(3)

The intelligence gained by these and other means was processed and evaluated primarily by commodity, industrial, and service specialists and technicians of the Materials, Industrial, and Services Divisions to produce the quantitative estimates that were the bread and butter of economic intelligence during this "building-block" period. More analytical measures of absolute and relative capabilities were the task of the reorganized Analysis Division as it emerged in 1952. Aggregation of these data and the development of economic and statistical techniques to produce estimates of gross national product, indexes of industrial production, and studies of interindustry and interregional relationships became the main goals of the economic intelligence effort. A number of projects reflecting this aggregative research activity were laid on in the first research program developed during [redacted] tenure, and this type of analysis was given (b)(3) (b)(6) particular emphasis after the activation of the Economic Research Area in mid-1953.*

B. <u>The Estimates File</u>

The value of aggregative research depended, of course, on the adequacy of the data base, so that

* See III, F, above.

the "building-block" activity initiated by Millikan did not diminish in importance. A considerable effort was in fact made to systematize and organize the developing data base through the operations of the Estimates File. Initiated as a function of the Economic Accounts Section of the Economic Capabilities Branch in the Analysis Division, this activity achieved branch status in June 1952. It became a staff function with its transfer to the Planning and Review Staff in the fall of 1953, and continued as such as a responsibility of the Publications Staff in 1956.

The purpose of the Estimates File was to draw together the latest and best economic data on the Bloc countries -- in systematic, easily recoverable form.* The file was based on a breakdown of the Bloc economies into 610 discrete activities in the *ORR Standard Classification of Economic Activities*, which was published in July 1952 as one of the first projects of the Accounts Branch. 100/

* An estimate was formally defined as follows: "An estimate constitutes the best judgment of the analyst and his responsible supervisors of the magnitude of a specific economic phenomenon on the basis of currently available information, the reporting responsibility for which rests with the indicated analyst and supervisors." 99/

In addition to basic national data for each target country -- for example, area, population, labor force, and national aggregative data -- the commodity or activity files were to contain estimates covering production, consumption, capacities, supply patterns, inventories, strategic stockpiles, distribution patterns, and the like for each significant item produced in that country.

Several purposes were expected to be served by the Estimates File. These included (1) internal consistency in the Office's publications; (2) analyst discipline in the systematic maintenance of data; (3) a central file for servicing requests for data; (4) provision of latest material for ad hoc briefings and for the several statistical publications which were developed; (5) a source of comparable data for use in aggregative research, particularly for interindustry analysis -- that is, input-output studies; and (6) provision of an adequate collection of significant data for vital storage.

The publications that developed from the Estimates File included (1) the *Director's Handbook of Economic Estimates*, a pocket-sized handy reference book including TOP SECRET material kept up-to-date

by quarterly revisions; (2) the *Economic Intelligence Handbook, Statistical Summary*, a larger, more complete office reference work -- with a SECRET classification -- issued annually (this was the forerunner of the present day *Economic Intelligence Statistical Handbook*); and (3) *The Presentation of Statistical Data*, the final version of a long-planned and often postponed ORR Handbook of standard statistical practices. This research aid outlined procedures and statistical fundamentals and established guidelines for tabular and graphic presentations. 101/

The Estimates File received vigorous support as an important tool of economic intelligence from ORR's senior officials, led most energetically by [redacted] both when he was AD/RR and after he became DDI. By his directive it was to serve as: (b)(3) (b)(6)

[redacted] (b)(1) (b)(3)

The file was further justified by [redacted] in his FY 1954 Budget Estimate with the statement that [redacted] (b)(3) (b)(6) (b)(1) (b)(3)

[redacted] enthusiasm was not reflected at the lower levels. The maintenance of the Estimates File proved to be a tedious business, since each branch was expected to check the currency of its estimates in the Economic Accounts Branch on a quarterly basis, with an additional ad hoc updating of the file to reflect the latest revisions upon the completion of each project. Additional efforts were required to develop estimates of capacity, plans, patterns of trade, and the like. Comparative data for the United States and appropriate NATO countries, which [redacted] thought could be provided by [redacted] proved difficult and time-consuming to acquire.* Although the potential value of the Estimates File was not significantly questioned, the maintenance of it became something of a disciplinary problem.

(b)(3) (b)(6)

(b)(3) (b)(6)

(b)(1) (b)(3)

Following a study by [redacted] of the problems of maintaining analyst support and keeping the clerical and presentation burdens within manageable limits, 106/ an ad hoc committee on the Estimates File was

(b)(3) (b)(6)

(b)(1) (b)(3)

(b)(1) (b)(3)

* The gathering of the Soviet data for the 1953 *Director's Handbook* consumed [redacted] hours, the US data, [redacted] hours. 105/

(b)(1) (b)(3)

established in the fall of 1953 to make a final determination on what should be included and what should be published. The committee, chaired by [redacted] issued its report on 19 March 1954. This report did much to clarify the purposes and procedures for maintaining the central Economic Estimates File and the supporting branch estimate files. These were definitively set forth in the first supplement to the Economic Research Area Procedures Series. 107/ (b)(3) (b)(6)

The value of the Estimates File came more and more into question as data from the Communist countries became more openly available. As previously noted, the first Soviet statistical handbook was released in 1956. The other European Communist countries followed with a relaxation of their security restrictions, although the same was not true of Communist China. It was found that the annual updating of the *Economic Intelligence Statistical Handbook* provided an adequate current source of data for most purposes and was a far less time-consuming task than the continual revision and monitoring of estimate file cards. Accordingly the file was allowed to lapse during the 1960's. The discipline that it provided for the systematic

maintenance of data was provided by analyst participation in the maintenance of the *Handbook* and by the progressively high standards of statistical consistency maintained by the statistical check by the Economic Accounts Section (St/P/A)* of projects during the editorial review process. 108/

The latter function of the Economic Accounts Section had in fact gradually increased in importance at the expense of Estimates File maintenance. The report [redacted] had recommended that the group be responsible for the limited statistical audit and review of projects of the ERA. 109/ Over the course of the rest of the decade, this reviewing process became a major burden on the section's attention. By 1958, all projects were being subjected to the section's scrutiny. The resulting improvement in mathematical accuracy and consistency of data and presentation techniques did much to establish the quality of ERA reports.

(b)(1)
(b)(3)
(b)(6)

Thus, although the value and durability of the Estimates File itself was considerably exaggerated

* The Economic Accounts Branch of Analysis Division was made a "group" in the Planning and Review Staff in 1953 and transferred as the Economic Accounts Section to the Publication Staff in November 1956.

in the early period, it played a significant role in the evolutionary process of economic intelligence development. The *Economic Intelligence Statistical Handbook*, its lineal successor, has proved to be one of OER's most valued products, with a dissemination list some three times that of the usual Office report.

C. Aggregative Economics

As pointed out in 1951 by [redacted] economic (b)(3) (b)(6) intelligence encompasses more than an inventory of available resources of labor, raw materials, and instruments of production. In his seminal paper on the functions and methods of economic intelligence, he noted that the inventory of resources was only the first step in the assault on the Soviet economy. It must be accompanied by analysis of how the resources are allocated to serve certain goals, how they are interrelated and what would be the "chain reaction" effect of denial of particular resources or facilities on the rest of the economy and its overall capabilities. 110/ The search for this more comprehensive understanding of the Soviet economy was reflected in the aggregative analysis undertaken by the new Analysis Division following its establishment in 1952.

The techniques of aggregative analysis that the ERA exploited in its assault on the Soviet economy were primarily interindustry accounting and national product accounting. Although the latter became the more important of the two, interindustry accounting, or "input-output" analysis, was the object of much attention in the 1950's, particularly as it seemed to have considerable potential in pinpointing vulnerabilities in the Soviet economy and in estimating the economic capabilities of the Communist countries to support war.

1. Interindustry Accounting

It was, as indicated above, recognized from the beginning that simple production estimates of key commodities were not enough to evaluate the Soviets' strategic strength. It was known, for example, that the Soviets produced only about one-tenth as much oil as the United States, but one could not reason from this fact that with regard to petroleum availability the USSR had only one-tenth of the military potential of the United States. The Soviets used no measurable quantity of oil for heating buildings, their transportation system used a far smaller proportion of the oil

resources than that of the United States, and the Soviets used far fewer petrochemical products in the manufacture of plastics and other (largely civilian) products than the United States. Thus the estimate of the military potential of Soviet petroleum had to be analyzed by looking at petroleum consumption patterns, on the one hand, and at the capital equipment and raw material and labor requirements of the petroleum industry on the other. It was this type of problem that input-output analysis, or interindustry economics, was designed to solve.

Input-output analysis is a system of economic accounting closely related to the national accounts system used to estimate gross national product, but it preceded the latter in the economic literature by several years. It was first described by its founder, W.W. Leontief, in 1936. 111/ By the mid-1950's it was a subject of much interest among economists. According to the National Bureau of Economic Research (NBER) in 1955, "input-output analysis ... has in recent years absorbed more funds and more professional resources than any other single field of applied economics." 112/

The initial limited effort to apply input-output analysis in ORR was in connection with an EIC study laid on by the IAC on 1 November 1951. The project to be undertaken was an analysis of the economic capabilities of the Soviet Bloc to support a general war. 113/ Two studies were to be made, the first covering a war beginning on 1 July 1952 and the second, a war beginning on 1 July 1954. After a number of delays, the first study was divided into a "cold war" capabilities phase and a "hot war" capabilities phase. The first phase, in which a modified form of the input-output technique was used, was completed and issued as an EIC working paper (EIC-R-2) on 19 December 1952. 114/

The problems of data inadequacy and the reluctance of the military representatives to proceed with the "hot war" phase led, after many delays, to a decision to terminate the project. The EIC accordingly reported to the IAC that:

[redacted]

(b)(1)
(b)(3)

Since the principal weakness of the study was the lack of accurate and precise data, 116/ and since ORR was gradually developing a "data bank" that it hoped would ultimately provide a sufficiency of statistical material for this type of analysis (the Estimates File), input-output analysis was not abandoned. The technique, its data problems, uses, and limitations for economic intelligence were outlined in a research aid published by ORR early in 1954. 117/ The technique was described as a type of double-entry bookkeeping which results in a tabulation showing in columns and rows, respectively, for each sector of the economy, the inputs or purchases from each of the other sectors, and the outputs or sales to each of the other sectors. Thus the input structure and consumption pattern for the economy as a whole and for each sector can be presented in a single table. This tabulated data can then be used analytically to show the effects of changes and to pinpoint the strengths and vulnerabilities of individual sectors or the whole economy.

The research aid was followed in mid-1955 by a second and more elaborate attempt than EIC-R-2 to analyze the economy of the USSR by this technique. 118/ Using 1951 data, the Soviet economy

was broken down into 61 producing sectors and five nonproducing sectors. The basic table gave a statistical view of the entire Soviet economy in 1951. Each sector of the economy had a separate row representing the distribution of its output for that year and a separate column showing the various inputs into that sector for the year. Supplementary tables derived from the basic table presented the percentage distributions of the components of total costs and allocations of output for each sector. Despite the continuing limitations of data -- US analogs had to be adapted for many entries where hard Soviet data were not available -- this intersectional framework was believed to be useful for many intelligence applications. Accordingly, another effort was made to apply it to the war-support capability, and it was hoped to apply it also to the analysis of the Soviet economy's capability to undertake specific production programs for guided missiles and atomic weapons.

Although the initial effort to have the EIC prepare a study on Bloc economic capabilities for war had not been successful, a new project for this purpose was laid on by the IAC at its meeting of 14 July 1953. 119/ A new EIC Working Group was

formed, new terms of reference were drawn up, and work proceeded on the project throughout most of 1954. An ORR interim contribution to the project using material balance analysis was published early in 1955. 120/ In this analysis, only a selected list of strategic resources was studied. The supply of each resource, or material, was balanced against the demand for it -- hence the term, material balance analysis. A benchmark year was selected, consumption and supply patterns for the selected resources were determined and then projected to a later period, and indexes of output and input reflecting the growth of these sectors in the absence of war or preparation for war were developed. On this base, the analysis of a wartime situation could theoretically be carried out by appropriate manipulations of the data.

The report was designed primarily to illustrate the technique and highlight the data requirements of this particular approach to capabilities estimation. Many of the assumptions -- for example, a conventional war of one year's duration, no damage to the economies concerned, and no accretions from conquered territory -- made the analysis and the conclusions highly theoretical. Again there was a

data problem that made its conclusions even more tentative. Nevertheless, the technique was considered promising, and the conclusion at least indicative of some of the problems that would be faced by the economies of the Bloc in wartime. [redacted] (b)(1) (b)(3)

[redacted]

(b)(1)
(b)(3)

Additional projects which attempted to use the interindustry or intersectoral accounting system to analyze the Soviet economy and one on the East

German economy were scheduled in the FY 1956 research program. These projects did not reach final publication, but the results of the research allegedly were useful in developing the national accounts studies, which have been the principal product of the aggregative research effort of the Office. Thus interindustry accounting as a research tool was largely abandoned in the late 1950's, an apparent reflection not of judgments about its validity, but of the scarcity of accurate data needed to give the technique predictive value.*

2. National Product Accounting

National product accounting was the principal means used by ERA to measure the national economic achievements of its largest target countries, with estimation of the annual gross national product as the most immediate objective. Other more specific uses of national account studies for economic intelligence were as follows:

> (1) Together with appropriate ruble-dollar ratios, they have provided the basis for international comparisons of national product in National Intelligence Estimates;

* Its later revival in the 1960's with the improvement of access to data and in response to a Soviet release of input-output tables on their own economy will be discussed in Volume III of this history.

(2) Deflated by appropriate price indexes, national accounts series have been used to measure the growth of individual economies;

(3) The end-use and sector-of-origin breakdowns of national accounts have furnished information on the structure of the target economies and the directions of economic policy; and

(4) Many of the components derived in the construction of national accounts have been of intelligence interest, such as the urban wage bill, agricultural incomes, household consumption expenditures, and gross capital formations. 122/

ORR's first estimate of the Soviet gross national product was prepared in mid-1951 in response to a request from the Economic Cooperation Administration (ECA). It represented no sophisticated analysis. A "calculation" was made by some unstated means "using 1949 as a base year, and then the 1949 figure has been increased by 7 percent per annum for the Satellites and 10 percent per annum for the USSR." 123/

Using a conversion figure for the Soviet ruble of approximately US $0.13 (that is, 7.7 rubles to the dollar), the Soviet gross national product was estimated as: 1949, $65 billion; 1950, $71.5

billion; 1951, $78.65 billion; and 1952, $86.5 billion.* 124/

The first ORR economic contributions to a Soviet NIE were Project 1-51, *Conversion of Soviet Economy to Production for Military Use*, 9 March 51 (TS), and Project 2-51, *Soviet Bloc Capabilities for Meeting Essential Civilian and Military Requirements in a General War*, 12 March 51 (TS). Both were designed for NIE-25, *Probable Soviet Courses of Action to Mid-1952*, 12 August 51 (TS). These brief papers were concerned with specific commodities and strategic economic sectors and made no attempt at aggregative analysis. Thereafter, however, the ORR contribution to the annual Soviet NIE, which was designed to identify main trends in Soviet capabilities and probable courses of action for the succeeding five years, were broad-gauged surveys of the Soviet economy aimed at identifying shifts in economic priorities and developing economic problems. The projections of economic growth and the comparisons with the United States were among the principal purposes of the exercise and thus provided a major reason for the emphasis placed on

* The more sophisticated techniques of 1959 placed Soviet gross national product in 1950 at US $87 billion. 125/

national product accounting. It was recognized early in the course of the Office's analysis of the Soviet economy that it was growing faster than that of the United States. As indicated above, ORR's first commitment to a growth rate figure for the USSR placed the rate for 1949 to 1951 at 10 percent. ORR's major NIE contribution in 1952 lowered this figure to 8 percent. 126/ [redacted] (b)(1) (b)(3)

A major ORR paper on the Soviet economy, involving the construction of indexes and the extrapolation of growth trends, was produced at the end of 1952 as the Office contribution to NIE-65, *Soviet Bloc Capabilities Through 1957*. The paper included the development of production series for more than 125 commodities and services and the construction of indexes leading through aggregation to a single index of gross national product. There were recognized limitations in the methodology because of data weaknesses and because the weighting and aggregating techniques involved the application of 1941 weights* to the 1952 economic structure.

* Available from a copy of the 1941 plan captured by the Germans during World War II.

Nevertheless, the study defined the magnitude of the Soviet economy in more exact detail than had theretofore been achieved. Several significant conclusions were set forth:

[redacted]

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[redacted]

(b)(1)
(b)(3)

[redacted]

(b)(1)
(b)(3)

The first attempt by ORR to estimate the Soviet gross national product in current rubles using national account construction methods (adapted from procedures used by the Department of Commerce in presenting US national accounts) was released early in 1955. 129/ This report also undertook to convert the figure for gross national product into dollars for the purpose of intercountry comparison. After pointing out the pitfalls of such conversion attempts, it derived conversion ratios resulting in an overall average of 10.5 rubles to the dollar and a dollar estimate of Soviet gross national product for 1950 of US $96 billion.

Later refinements of national accounting techniques involved modifications of the accounting system recommended by the Organization for European Economic Corporation (OEEC) and the United Nations. The first of these was CIA/RR 90, *Soviet National Accounts in Current Rubles for 1953*, 28 February 1957, S., and the next was CIA/RR 133, *Soviet*

[redacted]

National Accounts for 1955, 28 May 1958, S. These reports and subsequent refinements were the basis for the periodic judgments about the size and growth rate of the Soviet economy that were features of the annual NIE contributions and also for the public releases made by Allen Dulles and others in the late 1950's.*

3. Ruble-Dollar Ratios

The refinements and improvements in analytical techniques resulted, of course, in periodic revisions of the estimates of gross national product previously put forth by the Office. As has been noted above, the estimates of Soviet gross national product for 1950, for example, underwent at least two revisions as a result of these improvements. In 1951, it was estimated at US $71.5 billion; in 1955, US $96 billion; and in 1959, US $87 billion. If it had been acceptable to ORR's consumers to use ruble figures for this key yardstick of economic stature, the task would have been far simpler, but international comparisons required a dollar figure. The differences in the several figures for 1950 listed above were in part a function of the

* See IX, below.

following different average ruble-dollar ratios used in the calculations:

1951: 7.7 rubles to US $1.00
1955: 10.5 rubles to US $1.00
1959: 12.4 rubles to US $1.00

These differences resulted from yet another major research and analysis activity of the ERA -- the development of appropriate ruble-dollar ratios for use in international comparisons. The basic problem in such comparisons is that the national product of any country is made up of a great mass of different goods and services, some of which the country produces efficiently and cheaply and some of which it produces inefficiently and dearly. To compare its output with that of another country which has a quite different mix of goods and services and costs of producing them is to compare horses and apples.

Thus the variations in ruble-dollar ratios that appeared in ORR's research were manifestations of the observation that, for example, it cost the Soviet consumer, say, 19.8 rubles to get the equivalent of what the US consumer could get for a dollar, while it only took 7.7 rubles to buy the equivalent of a dollar's worth of producers' goods. These differences were reflections of Soviet resource

allocation policy. The producers' goods industries of the USSR had long been favored claimants of resources with respect to allocations of skilled labor, raw materials, investment funds, and technological research programs. Consumer goods industries in the USSR, on the other hand, had been forced into the position of residual claimants of resources. As a consequence, the Soviet producers' goods industries compared much more favorably with their counterpart US industries from the point of view of technology and productive efficiency than did Soviet consumer goods industries with their US counterparts. Consequently, Soviet prices reflected the existing stages of development of the machine building and consumer goods industries. Generally speaking, relative prices reflected relative scarcities in these two areas of production -- that is, on a relative basis, machinery and equipment items in the USSR were cheap and plentiful, whereas consumer goods were scarce and expensive. 130/

In order to be able to make direct comparisons of gross national product for the two countries, it was necessary to measure the product of both economies in both dollars and rubles. The

application of a set of end-use price ratios -- either ruble-dollar or dollar-ruble -- to US gross national product in dollars or Soviet gross national product in rubles enabled comparison in units of the same currency. It would have been possible, of course, to use the official Soviet exchange rate of four rubles to the dollar for this purpose. The official exchange rate, however, bore no particular constant relationship to the purchasing power of the ruble and in fact grossly overstated its actual purchasing power. The absence of a relationship between official rates of exchange and the purchasing power of currencies constitutes a major difficulty in making international comparisons of economic strength -- a difficulty that exists between any two countries, not just the United States and the USSR, since such difficulties are inherent in international price comparisons. Important problems which must be dealt with in international price comparisons include (1) product comparability, (2) the representativeness of the sample of prices, and (3) the development of systems of weights for the purpose of aggregating the ratios. Research aimed at dealing with these problems was a major ORR activity in the 1950's.

The value of the activity in enhancing the understanding of the Soviet economy by the analysts concerned was great indeed, but its usefulness in reaching what the policymakers wanted -- a single, unambiguous, and accurate index of the relative economic strengths of the USSR and the United States -- should not be overestimated. Such an index remains elusive because it is conceptually unattainable. The estimates for 1960, for example, were that Soviet gross national product was 33 percent of that of the United States as expressed in rubles, 66 percent as expressed in dollars, and 47 percent as expressed by the geometic mean of the other two. It was the figure derived by the latter calculation that was used by ORR when pressed for a single-value answer to the perennial question, "Where does the Soviet economy stand in relation to ours?" It was necessary, however, to point out the weakness of such an answer and, in the words of [redacted] to emphasize: (b)(3) (b)(6)

> that overall GNP comparisons -- dollar, ruble, or average -- do not measure in any significant sense the USSR's economic challenge to the United States. It is the uses to which productive capacity is put that are significant. Soviet GNP in 1960 may be 33, 47, or 66 percent of ours, but Soviet defense expenditures are approximately equal to ours and investment for growth is

also equal or perhaps a little larger than ours. In speeches by the Director of Central Intelligence and in many other ways it has been publicly reiterated that the Soviet economy, though significantly smaller than the US over all, is growing much faster, particularly in heavy industry; that its production is concentrated along ominous lines -- investment for more growth, armaments, and the development of new military technology; that its efforts in these fields are already comparable in magnitude to our own; that it is devoting its resources with all the power of a determined dictatorship to a long-run aim declared in Khrushchev's promise, "We will bury you." 131/

[redacted]

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(b)(6)

(b)(1)
(b)(3)

[redacted]

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Except for the last of these suggestions, the research activities of the ERA for the next several years were substantially in accord [redacted] Work on non-Bloc economic problems was at the time considered quite beyond the scope of ORR,

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(b)(3)

which was in fact still having some difficulty in establishing its primary responsibilities with respect to Bloc economics in relation to those of the Department of State.*

E. The "Child's Guide"

ORR economic reports of this period, as seen from the vantage point of 1972, appear over-long and over-documented. Reports of more than 100 pages were the rule rather than the exception, while source references could run to several times that number.** The latter phenomenon probably reflected an insecurity about the validity of the data. Each source citation had to be not only listed but evaluated.*** The methodology had to be

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* See III, B and C, above. (b)(1)

** For example, CIA/RR-21, *The Coal Mining Equipment Industry of the USSR*, 27 May 1953, S, was 295 pages [redacted] (b)(3)
This is no isolated example. The average length in manuscript pages of "RR" reports edited between 1 January and 30 June 1953 was 230 pages. 133/

[redacted] (b)(1) (b)(3)

spelled out, and gaps in intelligence identified. These rigid requirements were all designed to establish the authority of the Office's judgments and the rigorous standards of its scholarship. The service of these ends meant, however, that productivity was slowed, and more seriously, that the reports were not being read by those they were designed to serve. This problem was recognized fairly early, and a "popular" version of the Office's findings on the Soviet Bloc was issued for those "who must run while they read."134/ Known popularly as "The Child's Guide," this report -- 30 typescript pages of text and tables -- provided a summary statement of the economic situation in the USSR, the European Satellites, and Communist China. It included: a survey and evaluation of the economic organizations; descriptive material on the salient features of the economic base; an outline of the economic objectives; and an indication of the levels of achievement reached.

The primary author of the first version of "The (b)(3) (b)(6) Child's Guide" was [redacted] who also coined its working name.* He had worked with [redacted] on (b)(3) (b)(6)

* Another analyst who worked on this project (in its second version) was [redacted], (b)(3) (b)(6) who came to the Agency [footnote continued on p. 179]

detail from the Agency, at WSEG and returned to ORR at about the time [redacted] came to the Office. (b)(3) (b)(6) In his subsequent work in ORR, he was one of the prime developers of the methods used to estimate Soviet military expenditures.*

F. <u>The Soviet Statistical Handbook</u>

The Soviet release of a statistical handbook, *The National Economy of the USSR*, in the spring of 1956 marked the first official statistical compendium to become available from behind the Iron Curtain in 17 years. Even though it left many key questions unanswered (for example, no production data for nonferrous metals, significant chemical and military end-items, or key agricultural products; no wage data; no monetary or credit statistics; and no data on size and composition of state reserves), this was a welcome boost to ORR's intelligence effort, providing in most cases a strengthening and verification of estimates that had been

[redacted] (b)(3) (b)(6)

* These significant intelligence contributions are presumably discussed in detail in the history of the Office of Strategic Research (OSR).

made from scattered and low-yield sources. A major revelation was the population estimate of 200 million as of 1 April 1956 -- about 16 million below ORR's estimate. This led to a recalculation downward of the rate of growth of the labor force, of the capability to maintain rapid economic growth rates, and a lower manpower potential. 135/

This release, in addition to making considerable new information available for the economic analyst, heralded a relaxation of Soviet security restrictions on economic data and wrought a change in the task of the analyst. No longer was he "forced to function like an archeologist, spending most of his time digging for individual isolated facts. He could now start with figures which, while far from complete, . . . provided a sufficient basis for serious analysis." 136/

The fiscal watchdogs of the Agency and the Bureau of the Budget were not slow to raise the question of cutting ORR's personnel requirements following the significant increase in official information from the USSR and the Satellites (Poland, Hungary, and East Germany also published statistical handbooks at this time). Thus it was necessary to point out not only the many gaps that

still existed but also the possibilities of more sophisticated research that were now created and the continuing need for intensive analysis and interpretation of both the newly released and other economic data. 137/

There remained also the question of whether the released statistics could be trusted. Both the possibility that local enterprise directors and collective farm leaders in the USSR might be engaged in false reporting under the pressure of high production goals and the other possibility -- deliberate falsification by the central authorities in order to deceive the imperialist spies (or the Soviet public) -- had to be considered. Thus the official figures had to be subjected to rigorous scrutiny, even though common sense indicated that the elaborate subterfuges that would be necessary to maintain two sets of accounts at either local or central levels were much too high a price to pay for the small gains that deceit could bring. Statistics are a necessary tool of management under capitalism, but in a Communist system where there is no market system providing built-in controls, they are an even more essential operating tool. Although minor falsification was undoubtedly

taking place at the local level, the many checks and counterchecks of the Soviet apparatus and the severe penalties for gross manipulation were believed to be effective in keeping them under control. The very fact that the Soviet economy worked at all indicated that only small distortions were creeping into the system of reporting. [redacted] (b)(1) (b)(3) Likewise, with respect to the national statistics issued by the USSR's Central Statistical Administration, those that could be related were found to correspond with data carried in a classified Soviet statistical document captured by the Germans during World War II. The official statistics, when subjected to this and other checks, were found to be authentic within the framework of Soviet definitions and usage.* There remained the task of interpreting the statistics since these definitions and usages were, both by design and by Marxist doctrine, often quite different from

* Later, however, Soviet agricultural statistics from 1958 until the early 1960's were found to be significantly inflated. There was some Soviet admission that this was the case, and independent checks by Western analysts -- reports of crop condition, weather analysis, and the like -- verified the judgment. 138/

Western concepts. In sum, the end of the Soviet statistical blackout as signaled in 1956 provided new opportunities and new challenges for economic intelligence and constituted another milestone in the movement of the Office's assault on the Soviet economy to more sophisticated levels of analysis.

Chapter VII

THE REST OF THE BLOC

"The needs for intelligence ... do not fade away because the factual data on which to base judgment become scarce."

(b)(3)
(b)(6)

CHAPTER VII

The Rest of the Bloc

A. Introduction

Although economic research on the other states of the Communist Bloc was necessarily subordinated to that on the Soviet Union during the Office's first decade, a considerable attempt -- consistent with available data -- was mounted against the Satellite nations. Similar methods were used and similar (and often more severe) data problems were encountered. Each commodity and functional branch in the Services, Materials, and Industrial Divisions had its China* and European Satellite specialists, the number varying, of course, with the availability of personnel and data and with the importance of the particular economic sector to the countries involved. Analysis Division was reorganized soon after the effective activation of the ERA so that aggregative work on these countries could be carried on by separate branches established for the European Satellite (EUSAT) and Far East Satellite (FESAT) areas. Annual NIE contributions for Communist China and for the European Satellites as a group

*Usually the China specialist or section had responsibility for North Korea and North Vietnam as well.

were prepared from 1955 on, and the effort expended by the ERA on its contributions to these papers usually resulted in separate ORR publications. Estimates on the individual countries among the Satellites or in response to crisis situations also required ad hoc contributions. The NIS chapters on the several economic sectors also constituted a significant burden, particularly with respect to the European Satellites, because of the number of countries involved and the limited number of analysts who could be assigned to these countries. The allocations of research time in the annual research program to the several areas for the period FY 1956-63 is shown in Table 3.

Table 3

Percentage of ERA Research Time
by Geographic Area 139/

Fiscal Year	USSR	EUSATS	FESATS	Sino-Soviet Bloc
1956				
1957				
1958				
1959				
1960				
1961				
1962				
1963				

(b)(1)
(b)(3)

B. European Satellites

The first major effort on the European Satellites was in 1951 and resulted in the first officewide project completed by ORR under [redacted] (b)(3) (b)(6) It was primarily an "Inventory of Ignorance" type of project, aimed at responding to an ONE request for a measurement of the economic contributions of the Satellite countries to the power of the USSR.140/ A much more analytical effort, including estimates of gross national product and of growth rates, was made in 1953 in the office contribution to the Satellite NIE for that year.141/

Since the construction of national income accounts and the measurement of gross national product were major goals, the paucity of data and the ambiguities of available statistics created a problem for the ERA in dealing with these countries as they did with the USSR. Although the European Satellites, in most instances, followed the Soviet lead in releasing more data after 1953, the problem of dealing with them in the mid-1950's was compounded by two limitations:

(1) The small number of persons available to do aggregative research on these countries; [redacted] This was clearly inadequate for research in depth to produce usable estimates of gross national product.

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(2) The lack of language competence and the difficulty of clearing people with the appropriate analytical and language skills necessary to exploit effectively the available unclassified data on these countries.

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In the meantime, it was becoming evident that a more systematic and comprehensive approach to the problem of developing data for basic intelligence on the structure and growth of the European Satellite countries was necessary. [redacted] (b)(1) (b)(3) (b)(6)

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The ERA's internal effort on the European Satellites in the 1950's focused its attention on the stability and cohesion of the Satellite and Soviet economies, seeking out factors which might lead to some loosening of Soviet control and evaluating the extent to which the USSR might be

called upon to invest additional resources in the area. Thus the ERA was able to respond quickly and with some degree of confidence to requests for economic assessments of the situation in the Satellites at the time of the uprisings in Poland and Hungary in 1956.* [redacted]

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C. <u>Communist China</u>

A 1954 ORR report, *Economic Development of Communist China through 1957*, which was a published version of the Office's contribution to NIE-88, was the first complete economic report published on Communist China. With the establishment of a Far East Branch in the Analysis Division late in 1953 and with most of the other branches carrying, if not a China "expert", at least [redacted] analysts applying their functional skills to the China problem, a systematic assault on the Chinese economy was mounted. Similar in scope if not in scale to that on the Soviet Union, this effort was even more frustrated than the latter by data problems. In the mid-1950's, the problem was not so much lack

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*See VIII, C, 2, below.

of data as concern with its reliability. Since the United States had been actively engaged in the economic rehabilitation of China between the end of World War II and the Communist takeover in 1949, information on the basic structure of the economy of the country was considered reasonably sound. In the early years of their rule, the Communists were fairly open in reporting on industrial expansion and modernization. However, as with the Soviet statistics of the period, the validity of this openly released material was a major research consideration of ORR. Among the projects laid on to examine this problem was a study designed to test for reliability the openly released Chinese Communist statistics and related open source data against information obtained by other means,

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[redacted] and also against ORR's judgments. The resulting report indicated that (as had also been determined with respect to Soviet statistics) there had been no deliberate falsification of published data for the purpose of misleading Western analysts.146/ As noted in ORR's contribution to NIE-13-59, however, Chinese Communist statistics suffered not only from the general limitations of Bloc statisti-

cal data, but also from weaknesses of inexperience, faulty organization, and lack of trained statisticians. Progress in overcoming these problems had, it was believed, resulted in relatively reliable data for the years 1954-57.147/

With the Chinese "great leap forward" campaign of 1958 under the slogan "let politics lead economics" statistical reporting was prostituted to propaganda, and there was a pronounced deterioration in the reliability of Chinese Communist statistics. 148/ This judgment led ORR to present a number of independent estimates of output for several important commodities for use in NIE 13-59.* Later, in 1959, the Chinese themselves admitted that they had overstated their accomplishments and announced "verified" statistics for the preceding year that brought the Chinese claim into close agreement with ORR estimates. There was considerable uneasiness among the ERA's China specialists even about the new claims. However, progress of the Chinese "commune" and "backyard industry" programs had been widely publicized,

*This was the intelligence community's first full-scale assessment of Communist China's "great leap forward." There had been a preliminary effort in February 1959 which concluded that "remarkable increases in production have actually occurred in 1958." 149/

and all evidence indicated that the Chinese masses were being driven at a ruthless pace and were apparently responding to the Stalinist pressures to produce and were accepting the continuing strict curbs on consumption. Thus, in spite of the Chinese leadership's downward adjustments in claims, ORR's China specialists estimated that 1958 had been a remarkably good year in terms of economic growth (about 20 percent) and that prospects for continued rapid growth were high (10 to 13 percent per year through 1962). At the same time, they warned that:

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In retrospect, the uneasiness about the intelligence estimates on Communist China during the late 1950's was justified. They did not take sufficient account of the irrationality and inflexibility of the leaders in ascendency at the time in Peking. Much of the product of the famed "backyard industries" set up in the "great leap forward" campaign turned out be worthless, and

the inefficiencies in production and the disruptions of society under the commune system were so pervasive as to be counterproductive. These possibilities were recognized by ERA's analysts at the time, but all the evidence was not in, and the extent of the damage could not be foreseen. Thus in the beginning of 1960, ERA was predicting that [redacted]

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In a retrospective look taken in 1963 at the Area's estimates for the period, [redacted] wrote:

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> The carefully considered hypotheses on which our growth projections were based proved to be very wrong indeed.

*According to OER's 1971 *Statistical Handbook*, China in 1965 ranked seventh in gross national product and produced only 11 million tons of steel and 42 billion kilowatt hours of electricity.151/

First of all, the disruptive commune organizational change and the useless backyard industry program upset the precarious holding program in agriculture. The so-called Leap Forward eliminated the thin margin between agricultural production and the population's minimum consumption needs, wiping out the nation's annual savings increment and hence new investment, the indispensable ingredient of growth.

Secondly, the all-important economic gains from the alliance with the Soviet Union -- loans, technical assistance, industrial equipment -- were sacrificed on the ideological altar of Chinese pretensions to Bloc leadership. The exacerbation of tensions reached a climax in mid-1960, when Khrushchev's patience wore thin and the Soviet technicians were precipitately withdrawn from China. This action effectively ended large-scale outside financial and technical assistance, the key to rapid industrialization.

Thirdly, the Chinese leadership, decided to try to keep as many people as possible alive, which means that its small foreign exchange earnings were (and are) being used up largely to purchase grain and fertilizer in the West. A rational policy would be just the opposite -- namely, to let the least productive members of society starve, to limit the number of births as severely as possible, and to use the very scarce foreign exchange to import the technical skills which are in short supply and are needed to get industry rolling again.

Finally, to the bungling of man was added the unkindness of nature, which presented China with a series of subnormal growing conditions for food crops. Nevertheless, the Chinese have rebuffed Soviet attempts to patch up the ideological quarrel; indeed, the dispute has

> been inflamed nearly to the point of open break. The result is that mainland China, from 1949 to 1958, a shining showcase of Communist success in bringing rapid industrialization and growth to an underdeveloped country, is now a very tarnished and discredited model.
>
> This reviewer submits that the incredible blunders of the Chinese leaders could not reasonably have been foreseen. Intelligence estimates made by mere men cannot hope to be correct in every case; there is always an element of the unknowable about the future. Prescience, omniscience with regard to the future, is a faculty denied to mortals.153/

D. North Korea

In spite of the fact that ORR was born at the height of the Korean War and General Smith was known to be particularly incensed at ORE's intelligence shortcomings with respect to Korea, there is no evidence of significant economic intelligence production on North Korea by the Office during its early years. The first recorded indication of interest in this area was the initiation of Project 10.313, *Reconstruction in North Korea*, in April 1954.154/ This project traced the economic history of North Korea and its level of economic activity up to the outbreak of the Korean War (June 1950), assessed the damage suffered during that conflict, and estimated the extent of rehabilitation following

the truce of 1953. Comparisons of its reconstruction progress with that of South Korea and of the levels of aid received by each part of the divided country from its respective sponsors were stressed. In fact, this comparative approach appears to have characterized economic research and reporting on Korea thereafter because of the manifest interest in such comparison by US policymakers. Another factor of policy interest in this research was the assessment of the relative roles of the Soviet Union and Communist China in economic influence over North Korea. Thus, at the time of the "commune" development in Communist China, an assessment was made of North Korean agricultural cooperatives for evidence of adoption of the Chinese system. It was concluded that they remained essentially in the Soviet tradition and that the adoption of a full-fledged commune system was unlikely.155/ Other projects undertaken during the late 1950's examined various aspects of the North Korean economy, including electric power, chemical fertilizers, construction, labor supply, and foreign trade. Some of this interest -- much greater than was warranted by North Korea's intrinsic strength -- was evoked by the requirements of the NIS program. Most of it, however, was

clearly a manifestation of policy concern with Korea as a divided country and as a friction point in the cold war.

E. North Vietnam

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Several other projects were prepared in 1954 [redacted]

These included a study of the population distribution 157/ and an assessment of economic gains to the Bloc as a result of the partitioning of Vietnam. 158/ The latter project concluded that North Vietnam's coal and cement resources could be of some value to Communist China, which would also benefit from improved transportation access to Southwest China. North Vietnam was adjudged to have a greater potential for a viable industrial economy than South Vietnam, but its development would require the importation of capital goods from the Bloc and, since there was also a need to import foodstuffs, could cause some drain on Bloc resources. 159/

During the rest of the 1950's, economic intelligence on North Vietnam expanded on these judgments in response to occasional NIE's and other expressions of community interest in the area. 160/ These efforts, although only a small proportion of ERA's analytical resources were involved, provided a background of experience and knowledge for the heavy demands that were to be made on the Office with regard to Vietnam in the 1960's. This was particularly true of the ERA transportation and

construction specialists, whose assessments of developments in Southeast Asia during this earlier period and efforts with respect to the Chinese buildup opposite Taiwan, incursions into Tibet, and encroachment on the disputed borders with India were, in retrospect, an invaluable, even if fortuitous, training experience for the future.

Chapter VIII

ORR'S RESPONSE TO THE CLAMOROUS CUSTOMER

> "We must try to answer the most important of the problems put to us ... as quickly and as competently as possible."
>
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CHAPTER VIII

ORR's Response to the Clamorous Customer

The two preceding chapters have described in very summary fashion some of the directions taken in the basic research effort -- initially to penetrate the wall of secrecy around the Bloc economies and later to interpret available data on those economies in order to reach judgments about their economic strength, economic growth, and, in particular, war-making potential. As [redacted] had pointed out, basic research was a necessary forerunner to appropriate and accurate response to the questions of the "clamorous customer." 161/ Although the clamor was nothing compared to what it would be in the 1960's, the customers were starting to make their needs known by 1953, stimulated no doubt by the changes that were taking place in the Soviet Union following the death of Stalin (5 March 1953).

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The first levy upon ORR resulting from this blessed event was an invitation from OCI to contribute to Project "Caesar," initially designed by that Office to provide in-depth analysis of the circumstances surrounding and developments related to the change in leadership. ORR's first contri-

bution to Project "Caesar" in May 1953 was the identification of certain economic policies and decisions [redacted] in the Soviet Union. (b)(1) (b)(3)

[redacted]

The death of Stalin was followed, it will be recalled, by the rise to power of Georgiy Malenkov. The first overt indication of a change in Soviet economic policy was given in a speech by Malenkov in August 1953, in which he promised a new emphasis on the needs of the Soviet consumer. ORR's analysis of what appeared to be a change in policy and the implications of such a change on Soviet industrial and military strength was eagerly sought by ONE and other intelligence community customers.163/ ORR's response pointed to previous indications that the lot of the Soviet consumer was to be improved and spelled out the implications of the announcement as indicating a leveling off of military expenditures and a modest rise in consumption, but no considerable slowing down in the growth of Soviet capacity to support war.164/

Aside from its intrinsic interest, this memorandum had an additional significance in bringing to a

head the long-festering disagreement with the State Department with respect to primary responsibility for intelligence research on the Soviet economy. An INR critique of ORR's Intelligence Memorandum accused ORR of uncritical acceptance of the Soviet plans and, by selective quotations, attributed to ORR claims that were in fact made by Malenkov. The resulting furor hastened the decision to spell out areas of substantive responsibility in DCID 15/1, giving CIA formal responsibility for economic intelligence on the Soviet Bloc.*

A. Military Economic Research

Details of the development of ORR's capabilities in military-economic research are properly the concern of the history of the Office of Strategic Research. They cannot be ignored in the history of economic intelligence, however, because this development drew heavily on the skills of many components of the ERA in addition to those branches and staffs formally charged with these matters.

Until mid-1954, there were three branches in the Industrial Division (Shipbuilding, Aircraft, and Weapons and Ammunition) that followed the conventional military production activities of the

* See III, D, above.

Bloc, together with a Military-Economic Branch in the Analysis Division which researched logistical support requirements of the Bloc military establishments. One of the outstanding contributions of the former group was the development of techniques to estimate Soviet aircraft production. [redacted] estimating in this field was developed to a high degree. A combination of data, including factory floorspace, labor inputs by number of working shifts, airframe weights, and number of months of production, was used, and to the resulting crude estimate, the factor of experience as expressed in the "learning curve" was applied to get a more precise estimate of the number of units produced of various types of aircraft.* These techniques were used for estimating production of all types of aircraft, 165/ but the biggest payoff came from its use in estimating Soviet bomber strength. The so-called "bomber gap" -- that is, the difference in the estimates of the Soviet strategic bomber force

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* The learning curve is a statistical formula widely used in the US aircraft industry. It expresses mathematically the increase in labor efficiency as additional experience is gained with increases in production. Its derivation and use were explained in an Office Research Aid, CIA/RA-7, *Theory and Application of the Learning Curve*, 24 Jul 56. OFF USE.

Approved for Release: 2023/06/14 C05972161

by the Agency and the Air Force -- was a major intelligence issue in the 1950's.*

Research on the conventional weapons industries and even on the nuclear energy industries was relatively self-contained, but when it became necessary to analyze the economic aspects of the Soviet guided missile effort and its ramifications, it was found that a wide range of economic sectors was involved. Thus the activity had an important impact on the ERA as a whole.

The first major effort in this field was the Office contribution to NIE 11-6-54, *Soviet Capabilities and Probable Programs in the Field of Guided Missiles*; 16 of the 23 branches of the ERA were involved, devoting more than [redacted] research hours to the task. Soviet production capabilities and performance in the following component fields were covered: electronic and control mechanisms, propulsion fuels and oxidizers, high-alloy metals, antifriction bearings, precision mechanisms, airframes, explosive warheads, motors and engines, testing equipment, and launching apparatus. The survey of the component production capabilities

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was accompanied by a comprehensive analysis of the cost of the estimated missile program. The whole exercise, although producing very little direct evidence on this initial offering, was recognized as the beginning of a major intelligence effort which only ORR among the intelligence community's several components had the capability to perform. 166/ Accordingly, both organizational and programming steps were taken in 1955 to meet the new responsibilities. Although the Office of Scientific Intelligence, with primary responsibility for the research and development aspects of the problem, was establishing a Guided Missiles Division at this time, ORR was not prepared to go this far. Since there was a notable lack of readily available information and there were conflicting demands on the many Office components which would be involved, [redacted] proposed the temporary establishment of a special staff to [redacted]

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The new staff was established as of 1 June 1955 under the leadership of [redacted] Although the various commodity, industrial, and service branches retained primary responsibility for research and analysis of those economic sectors that would

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support a guided missile program,* the staff was charged with assuring that all subjects and sources were thoroughly exploited as well as with coordination of all aspects of economic intelligence research, collection, and exploitation activities. The estimating of costs in money, material, and manpower of the Soviet guided missile programs (investment, production, training, and operations) and the impact of these factors on the other military programs and the Bloc economies as a whole were also important functions of the staff, particularly in its contributions to the National Intelligence Estimates on the subject. As chief, [redacted] was responsible for representing the Office in providing advice and assistance to the DDI Guided Missile Intelligence Coordinator on both economic [redacted]

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The adaptability and flexibility of the ERA in responding to the requirement for guided missile intelligence are revealed also by an examination

* These included electronics components, precision instruments, fuels, special metal, transportation and launching equipment, and launch site and access road construction as well as missile production itself.

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of the research as programmed for the FY's 1954 through 1956. The first program issued under [redacted] (b)(3) (b)(6) leadership covering the period December 1953 to June 1954 contained no projects that can be identified as "missile-oriented." For FY 1955, the program called for two missile projects -- the areawide contribution to NIE 11-6-54 and a project to estimate "air frame and engine production of guided missiles" by the Aircraft Branch with an assist from the Electrical Equipment Branch.168/ Total programmed time for FY 1955 was [redacted] hours. The (b)(1) (b)(3) FY 1956 program listed another major NIE contribution [redacted] and five supporting projects of (b)(1) (b)(3) [redacted] hours. (b)(1) (b)(3)

This initial work on guided missiles, when added to the effort already made on conventional weapons and military manpower, meant that a significant proportion of ERA's assets was increasingly being devoted to military-economic research. In addition to estimates of production and capabilities in the several military categories, the determination of the costs of Soviet weapons systems opened up a number of fields of endeavor and conjecture for the economic analyst. As the subsequent history of this

matter will show, the effect on ORR, both substantively and organizationally, was profound.

B. The Response to Soviet Economic Penetration

Another significant broadening of the Office's economic intelligence mission occurred in 1955 -- significant not only because it was responsive to a new development in Soviet economic policy, but also because it constituted an entering wedge for ORR's subsequent work on the economies of the Free World. After the death of Stalin in 1953, the Soviet Union took a new tack in its foreign policy and embarked on a program of economic assistance to the underdeveloped countries of the Free World. This program started modestly enough with a $6 million credit to Afghanistan in 1954.* Early in 1955, however, it was announced that the USSR had agreed to build a 1-million-ton steel mill at Bhilai in India, and it became evident that Communist economic penetration of the Free World merited the attention and concern of US policymakers. The first ORR report on the subject was disseminated in April 1955. It was prepared primarily for Nelson Rockefeller on the Operations Coordination Board (OCB), but was also given other high-level distribution by the DCI's

* By September 1971, the USSR had extended more than $14.5 billion in economic and military aid to 35 Third World countries. 169/

Office. The report noted the rapid growth of Bloc participation in Free World trade fairs and its recent extensions of credits to Afghanistan and India and made the point that:

> while the magnitude of the Bloc effort is still small in money terms and in comparison to US aid to underdeveloped countries, the skill with which the Soviet program had been developed is resulting in significant political gains with relatively small economic costs.170/

Although much of the early reporting on the subject was done by the Current Support Staff, in July 1955 the DDI directed that an areawide Task Force be set up to monitor and report on this activity. Chaired by [redacted] of ORR's Services Division, the DDI Task Force consisted of members from OCD, OSI, and OO, with a liaison member from DDP. Concurrently, Services Division established a Soviet Penetration Staff in the Trade and Finance Branch consisting of [redacted] and [redacted] additional analysts. Its initial report was prepared in response to a request from the DDP,171/ but it received additional distribution, including the White House Staff, and appears to have stimulated wide interest.172/

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With the increase of Bloc activities,* demands for detailed reporting on the subject increased. After a request from Joseph M. Dodge, Special Assistant to the President for Foreign Economic Policy, to the Secretary of State in January 1956 for detailed reporting on cold war economic activities of the Sino-Soviet Bloc and for the establishment of a mechanism for coordinated summaries of developments on a biweekly basis, the Economic Intelligence Committee set up an interagency working group to provide this service. The working group disseminated the first of its biweekly series on 23 February 1956 and has continued with it up to the present (1971).173/ The activity was also summarized in semiannual reports for the EIC, the first of which provided a coordinated summary of Soviet external economic activities since World War II.174/** [redacted]

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*By February 1956, Bloc credit offers totaled over $1 billion.
** This became an annual publication in 1966 and the biweekly was shifted to a monthly in June 1970. [redacted]

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The matter of economic penetration became, over the next several years, the subject of a number of other regular issuances of ORR. These included quarterly briefing papers for the Council for Foreign Economic Policy beginning in June 1957;175/ periodic contributions to the OCB;176/and a series of sanitized reports for the Business Advisory Committee of the Department of Commerce. In addition, the Office of National Estimates began regular production of estimates concerned with the nature of the Bloc economic threat in underdeveloped areas. Even more significant for ORR's future work, contributions were required from this point on to the many estimates prepared by ONE on Free World areas and countries that were the recipients of Bloc economic aid. Although there was an unwritten agreement with the State Department, arrived at early in 1956, that CIA would cover the Bloc's role in economic penetration and State would analyze the impact on the recipient countries, State's contributions to these NIE's and to the EIC papers on the subject frequently fell short of what was needed. Thus ORR found itself doing more and more work on Free World economics. Ultimately the 1962 major reorganization was required to formalize this activity.*

*See Volume II.

The Bloc economic penetration programs had several facets, all of which were followed closely by the Soviet Penetration Section of the Trade Branch, which was increased to [redacted] professionals in March 1956.* A major aspect of the programs was the extension of credit on generous terms (2.5 percent interest charges and a 12-year repayment schedule were typical). Financing of basic industrial and infrastructural facilities was stressed, with such prestigious projects as the Bhilai Steel Mill in India and the Aswan High Dam in Egypt particularly favored. This Bloc encouragement of public sector industry was regarded as a means of diminishing the role of private capital and thus weakening the ties of the recipient countries with the capitalist West. Credits and grants have often been accompanied by technical assistance with thousands of technicians being sent to the recipient countries and large numbers of technical trainees and academic students going behind the Curtain for training. Soviet exports have also been stimulated by these programs.

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* By May 1962, when the ERA was reorganized, the equivalent of more than [redacted] professionals were engaged in this activity.

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The subject of Bloc arms shipments and military equipment and technical assistance was also of great interest to the Office but was not initially covered in detail by the EIC biweekly and semi-annual reports on the economic penetration programs. These activities were added in 1960 [redacted]

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As the appellation "economic penetration" indicates, all these activities were taken seriously by US policy makers. The United States had, of course, a substantial lead not only in time and resources devoted to foreign aid programs but also in experiencing some of the pitfalls of dealing with the underdeveloped countries. Nevertheless, the Bloc programs were widely seen as a threat to US interests. That Soviet economic credits were naturally applied to the public sector of the target economies, thus by implication encouraging socialism and weakening private sector activities, was only a part of the threat. The influx of Soviet advisers

and technicians carried the potential for the introduction of Communist influence and subversion, while the training of "Third World" nationals in the Bloc countries could provide the cover for the development of cadres for even more serious subversive activities. As Soviet military assistance programs were added, the impact of Soviet influence became even more pronounced. While it would be false to say that policy interest in ORR's product was low prior to 1955, the rapidity and thoroughness of ORR's response to policy interest in this subject starting in that year brought the Office to a new level of official notice. Because more or less the same thing was happening at about that time with respect to the Offices's response to a heightened interest in the economic aspects of the growing Soviet military posture, this period is seen in retrospect as marking a "quantum jump" in ORR's role and reputation in the intelligence community.

Although this history is not the place for an assessment of the overall impact of Communist "economic penetration" activities, it should be noted that not all the apprehension about their impact on US interests around the world appears to have

been justified. As with the US foreign aid program, Soviet efforts in this field have had their successes and failures. While US and Western influence has perhaps been weakened in many countries, this has been caused by a more complex set of factors than the persuasive power of Soviet economic aid. The heavy Soviet investment in such countries as Indonesia and Ghana did not produce results that could have been of much satisfaction to the architects of these programs in the Kremlin. In the meantime Soviet internal economic difficulties, the Sino-Soviet rift, and the growing economic independence of the East European Communist countries modified the picture of a monolithic world Communist power that was spreading unchecked from its source in Moscow. Thus, although US policy interest in the impact of Soviet economic influences around the world continues (1971), it has, to a degree, lost the urgency which characterized it during the early years of the Bloc economic penetration activity. The Soviet military aid programs, particularly in the Middle East, continued, however, to be major threats to US interests and to the stability of the areas where they have been concentrated.

The expansion of ERA's research and analysis activities to exotic weapons and to economic penetration matters was the major manifestation of a quite natural development in the history of economic intelligence. The early years had been spent largely in collating and reorganizing the data and identifying gaps in intelligence. The Office was now responding not only to the long-term and obvious areas of ignorance about the Bloc economies but also to current developments which demanded attention. Having spent a major part of the formative period in "improving the foundation of knowledge," 178/ the Office was now in a position to respond better to [redacted] "clamorous customer." Thus it was able to make useful contributions to the assessment of these new Soviet programs. (b)(3) (b)(6)

C. The Crisis Situations

In more pointed crisis situations, such as the Chinese Communist threat to the offshore islands between Mainland China and Taiwan in 1955 and the Suez crisis and the uprisings in Poland and Hungary in 1956, the Area also made significant intelligence contributions.

1. Taiwan Strait

The ERA's ability to respond in the offshore island crisis was the indirect result of an effort which had been made within the Services Division to improve its recognizably shaky foundations for economic intelligence assessments of Communist China. The division had set up in mid-1954 an informal China Committee, composed of its small group of analysts who worked in their respective branches on Communist China. Its purpose was merely to exchange views, arrange briefings and debriefings, and coordinate division activities on China. [redacted] An informal working group was set up, which began the publication of an Indications Journal to analyze and report on these developments, drawing on the division's expertise in construction, transportation, and communications. [redacted]

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by the ERA, but it developed talents of logistical analysis that would come increasingly into play within ORR in the 1960's. The Indications Journal and other ad hoc publications of this group soon became the community's most authoritative monitor of Chinese Communist capabilities and intentions toward Taiwan during this period. [redacted] (b)(3) (b)(1) The activity was continued by this group within the Services Division until April 1957, when it was transferred to the Current Support Staff and carried on through the regular support channels maintained by that Staff with the National Indications Center. 180/

2. Uprisings in Poland and Hungary

It will be recalled that 1956 was a year of major unrest in the European Satellites, particularly Poland and Hungary. The new Soviet policy line revealed at the Twentieth Party Congress in the spring of that year included the well-remembered attack on Stalin and his terrorist methods and affirmed that there

were many roads to Socialism. Designed to support Communist parties in the West and to move toward improved relations with Yugoslavia, this line had the unanticipated effect of stirring latent nationalism in the Satellites. An armed rebellion broke out in Poznan, Poland, on 28 June 1956. Although it was quickly put down, it was followed in October by the election of a new Polish Politburo, led by Wladyslaw Gomulka and a number of other nationalist Communists who had been purged in the late 1940's. A more serious rebellion occurred in late October 1956 in Hungary, requiring a major Soviet military intervention to restore control and to establish the pro-Soviet Kadar government.

The interpretation of these events from an economic point of view was not long in coming. Two Intelligence Memoranda written in response to the crisis and ORR's contributions to the Satellite NIE in December of that year traced the economic conditions in the two countries that made them susceptible to revolt under the stimulus of an apparent Soviet loosening of the tight controls established under Stalin and forecast the likelihood that Poland would achieve a begrudging measure of freedom from the Soviet Union. 181/

As for Hungary, the parlous condition of the economy before the revolt had been aggravated and future passive resistence would probably make it worse; the Soviets could be expected to:

> insist that a more strict discipline be imposed on Hungary's political and economic policies and that efforts will be made to eliminate disproportions in the economy in order to improve the supply of basic materials and food, reduce production costs, and avert the repetitive crises to which Hungary has been subject.182/

The other Satellites were noted as being:

> still very dependent upon the economic policy of the Soviet Union ... and there is little evidence that the changes will permit the Satellites significant increase in freedom in determination of economic policy.183/

These conclusions were perhaps not too definitive, and judgments about the degree to which they came to pass depend somewhat on the time frame from which they are viewed. In any event, these developments indicated a need for greater attention to the evidence that the Soviet Empire was not so monolithic as it had appeared. The considerable expansion of the European Satellite Branch that was achieved in the following year was a manifestation of this concern.

3. The Suez Closing

The ERA also responded to another major "crisis" event in 1956 -- the closing of the Suez Canal. Egypt had seized the canal in July 1956, presumably in a fit of pique because the United States and Great Britain had withdrawn their offers of aid for the Aswan High Dam. Repeated border clashes with the Israelis throughout the summer and fall led to an open attack by Israel on Egypt at the end of October. Great Britain and France joined in, and although a UN cease-fire brought hostilities to an end after a few days, by that time Egypt had blocked the Canal by sinking some 40 ships and other obstacles at key navigation points. Although the Middle East problems of the period were of major concern to the US Government, ORR, with the limitation of its charter, had not been called upon to provide policy support on this non-Communist area of the world. Nevertheless, briefing notes for the Director had been prepared on the Suez Canal, the world's supertanker fleet, and the Egyptian economy prior to the hostilities. After the closure of the Canal, ORR's shipping, trade, and petroleum specialists made an assessment of the impact of this action on Sino-Soviet Bloc trade and trans-

portation. Although theoretically restrained by the niceties of the division of intelligence responsibilities provided for in DCID 15/1, in this paper ORR also considered the effect of the closure on Free World commerce, which was much more significant.* In an NIE contribution considering the impact of the Suez closure on Western Europe, the Office was able to provide ONE with some material on the shortage of petroleum in Western Europe as well as the shortage of dry cargo ships.184/

* In 1955, 107 million metric tons moved through the Canal, of which only about 5 million consisted of Bloc trade.

Chapter IX

THE SOVIET GROWTH DEBATE

> "We are confident that the day is not far off when our country will catch up with our American partner in peaceful economic competition, and then, at some station we shall draw alongside it, and, giving a greetings signal, move on."
>
> -Nikita S. Khrushchev
> 24 July 1959

> "Some of the most valuable intelligence papers ever written (are) those projecting the future economic growth of the U.S.S.R."
>
> [redacted]

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CHAPTER IX

The Soviet Growth Debate

The late 1950's were marked by an increased public and official interest in Soviet economic growth. This was stimulated by Khrushchev's repeated challenges to the West to engage in economic competition. Khrushchev was boasting during this period that the USSR would catch up with the United States in per capita production of meat and milk by 1960* and predicting that Soviet per capita output would be the highest in the world by 1970.**

These matters were, of course, widely publicized in the press, and since this was also a time when Soviet space exploits were regarded by many as having put the USSR -- if not in the lead -- at least in a fully competitive position with the United States in scientific prowess, public interest in assessments of Soviet power reached a high point in this period. ORR was accordingly often called upon to provide the White House and other high-level consumers with data

* US milk production declined in the 1960's, and the USSR caught up with the United States in per capita production about 1965. The US lead in per capita meat production has lengthened; the Soviet consumer slipped from 37 percent of the US level in 1958 to 35.2 percent in 1970.

** As of 1 July 1971, OER estimated that the USSR stood 13th in gross national product per capita for 1970. 185/

on Soviet growth and, particularly, with comparative material designed to show Soviet lags behind the United States and estimates of how soon these might be overcome. This material was produced not only for the information of the President and other policy-makers, but also for public statements by these officials.

The Agency itself was "surfaced" at this time as an authoritative source of economic intelligence on the Soviet Union. Since 1951 the Office had been pointing to the rapid rate of Soviet growth, and the Chief of Economic Research and other senior economists of ORR had for some time been giving speeches and briefings and taking part in panel discussions, not only [redacted] before other privileged government groups but also before such organizations as the Committee for Economic Development.* These presentations were not, however, publicized. In significant contrast, therefore, was the address made by Allen Dulles before the US Chamber of Commerce on 28 April 1958. His speech, entitled "Khrushchev's Challenge," was given front-page treatment in the *New York Times*. Pointing out (b)(1) (b)(3)

[redacted] (b)(1) (b)(3) (b)(6)

that it was most probable that "the fateful battles of the cold war will, in the foreseeable future, be fought in the economic and subversive areas," he presented economic assessments -- produced by ORR -- indicating that Soviet annual growth had been running between 6 and 7 percent -- roughly twice that of the United States -- while Soviet industry was growing at an annual rate of between 10 and 12 percent. Thus Soviet gross national product, about 33 percent of that of the United States in 1950, had reached 40 percent by 1956 and might be 50 percent by 1962. Since consumption in the USSR amounted to less than half of gross national product, compared to more than two-thirds of gross national product in the United States, Soviet investment and defense expenditures were proportionately higher -- in fact, investment was 80 percent of that of the United States in 1956 and might exceed it in 1958. Pointing also to the rapid buildup of Soviet economic and military aid programs in the uncommitted and newly developing areas of the world, the Director concluded by characterizing Khrushchev's challenge, based largely on the economic and industrial growth of the Soviet Union, as "the most serious challenge this country has faced in time of peace." 186/

This speech, designed to contribute to the public understanding of the stature of the Soviet economy,* caused some apprehension both domestically and abroad. [redacted]

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This public exposure of the Agency's views on the Soviet economy also had another -- probably inevitable -- reaction. The July 1958 issue of *Fortune* ran an editorial accusing Mr. Dulles of "contributing to a legend" of prodigious Soviet economic growth and asserting that Soviet gross national product was in fact scarcely growing at all, [redacted]

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that labor productivity was falling off, that Soviet agriculture was having a bad year,* and that the rate of growth in investment was declining. 187/

[redacted] (b)(1) (b)(3)

G. Warren Nutter, who was quoted as saying in a speech in June 1958 that:

> if I had time today I would challenge almost every statement of fact made by Mr. Allen Dulles on the overall strength and rate of growth of the Soviet economy. 188/

ORR was in a good position to refute the statements of the *Fortune* editorial as well as to call the bluff of Professor Nutter, but there is no record that the Office's comments on these (or other) critiques of the Director's speech went beyond the Agency.**

The Director made a number of other public addresses during 1958 and 1959 on the same general theme. In addition, he, together with [redacted] (b)(3) (b)(6) and other senior ORR officials, found increasing demands for presentations on the subject within the government. Among other bodies, the Congress

* The year 1958 turned out to be the best for agriculture up to that time of any in Soviet history.

** [redacted] Chief of Analysis Division, and [redacted] an analyst in that Division. (b)(3) (b)(6) did prepare a critique [redacted] (b)(1) (b)(3) (b)(6)

took an interest. The Subcommittee on Economic Statistics of the Joint Economic Committee undertook an exhaustive comparative study of the economies of the United States and the Soviet Union, calling upon a number of private individuals and groups for contributions. Sixteen of these were released to the press on 1 October 1959.* 189/ All of these conceded that the Soviet rate of growth exceeded that of the United States, but they disagreed on the magnitude and the significance of this development. 190/

The ORR position in essence, as expressed in the numerous public statements, was that Soviet growth rates were impressive and that even with the slowdown that might come with declining rates of growth in the labor force and continuing problems in agriculture, Soviet investment plans would permit achievement of rates during the Seven-Year Plan (1959-65) that -- given the continuation of current US growth rates -- would move the Soviet regime closer to its objective of catching up with the United States. Some critics of this position -- including contributors to the Congressional study --

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were inclined to stress important but basically irrelevant considerations: the meager supplies of consumer goods, the shoddiness of many Soviet products, the regimentation of life, bureaucratic inefficiencies, and forced labor practices. Thus there developed a full-scale debate on the issue of whether or not the Soviet Union constituted a significant economic challenge to the United States.

To throw into this debate arguments about living standards and freedom -- however important these considerations might be in an overall comparison of the two systems -- was to becloud the point that ORR wished to make: it was precisely the fact that the Communist system in the Soviet Union was effective in allocating resources away from consumption toward industrial and military power that made the Soviet challenge a serious one. A more fundamental difference developed, however, with certain economists who focused the discussion on the growth rates themselves. Characteristic of this group were Professor Nutter, whose criticism of the DCI's earlier speech has been noted above, and Colin G. Clark, research director of the Econometric Institute. Nutter, then at the University of Virginia, had been directing studies on Soviet industry for the

National Bureau of Economic Research's project on Soviet economic growth. By concentrating on the long-run historical growth of Soviet industry, and playing down the recent short spurts of growth, he concluded that the rate of Soviet industrial growth on a sustained basis had probably not exceeded the rate in the American economy over comparable periods. 191/ Colin Clark's position was essentially similar, with the added observations that the larger estimates of Soviet growth were based on multitudinous statistical distortions and that estimates of 6 percent or more per year were "frequently quoted by public officials and by university professors who should know better." 192/

In addition to some disagreements with the methodology and analysis of these economists, ORR took issue with their selection of time periods. For example, by including the years 1913 to 1928 -- years disrupted by war, political upheaval, mass impoverishment, and chaos -- the Nutter study for the National Bureau placed Soviet industrial growth at 3.9 percent per year for the years 1913 to 1955. ORR believed that because of the disruptions the first 15 years should be excluded from the calculations. Starting from 1928, the figures for the

USSR showed a rapid economic growth in spite of the ravages of World War II; starting from 1950, ORR estimated the Soviet annual industrial growth rate at about 10 percent.

The public hearings of the Congressional Committee commenced with the appearance of the DCI -- accompanied by [redacted] -- on (b)(3) (b)(6)
13 November 1959.* Mr. Dulles opened his testimony, which received front-page coverage in the *New York Times*, by commenting on the wide range in Soviet performance. The economy, he stated, was concentrated on building heavy industry and military strength. Other areas were neglected, and in these Soviet performance was mediocre. Soviet gross national product was about 45 percent of that of the United States, but their military effort was roughly comparable to our own. Their agricultural output was less than ours, and their industrial output equal to about 40 percent of that of the US industry.

The Russian economy prior to World War I was a relatively large one, richly endowed with resources, and its agriculture was producing a surplus. After

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* As of mid-1972, this was the only instance of an appearance of a DCI at an open session of a Congressional hearing.

the revolution, it took until 1928 to restore the 1913 level of output. By 1928, the Soviets had decided on a policy of forced-draft industrialization, and the five-year plans were inaugurated. In 30 years the Soviet Union had moved up to second place among the world's industrial powers.

Dulles pointed out that virtually all Western measurements of economic growth had concluded that the USSR had been growing twice as fast as the United States since 1950. There was some open controversy over this, but differences in estimates were more apparent than real. The Soviets intended to push ahead and to overtake the United States in the level of economic output. CIA analysts expected the industrial goals of the Seven-Year Plan (1959-65) to be met, in general, but there would be a substantial shortfall in Soviet agricultural output as compared to the plan. Primarily for this reason they expected a moderate slowdown in the rate of economic growth. The analysts estimated that Soviet gross national product would increase to slightly more than 50 percent of that of the United States by 1965 and to about 55 percent by 1970. In the industrial sector,

however, the race would be closer -- by 1970 Soviet industry could equal 60 percent of that of the United States.*

Thus CIA analysts considered Khrushchev's statements on where the Soviets stood in their race with the United States and their hopes of overtaking the US economy by 1970 to be wishful thinking. However, Dulles emphasized that the main thrust of Soviet economic development was directed toward specialized industrial, military, and national power goals. The US economy was, on the other hand, much more directed at increasing consumer-type goods and services. Hence there was a good deal more to measuring relative power positions than the size of competing economies. It was necessary, therefore, to look at the uses to which economic assets are put. From the point of view of the Soviets' power goals, the record of progress was impressive indeed. 193/

Of Dulles' appearance before the Committee, the *New York Times* editorialized a few days later:

> With all the authority conferred upon him both by his position and by the vast intelligence resources at his command he

* In OER's judgment as of October 1971, these estimates for 1970 were "right on the button:" Soviet gross national product, 55 percent of US; Soviet industry, 60 percent of US.

> demolished every essential position of those who have urged complacency upon us in the face of the Soviet economic challenge. 194/

This debate continued on into 1960, with Khrushchev and other Soviet leaders making continued boasts. As might have been expected, the Soviets seized upon the DCI's testimony and other material presented before the Congressional hearings as acknowledgment of the validity of their claims. By quoting the DCI and others on Soviet progress and omitting their statements on Soviet difficulties, the various comments in the Soviet media frequently presented distorted views of the work of the subcommittee and its reports, including Dulles' statement. Khrushchev's reaction to the DCI's Congressional testimony was typical:

> In a recent speech, Director of the Central Intelligence Agency Allen Dulles said that the Soviet Union would achieve considerable successes in the tasks it set itself of catching up with the United States, especially in the field of industrial production by 1965. Describing the situation in Socialist countries Dulles declared that one had to admit honestly the sobering results of the Soviet economic program and the amazing successes it achieved in the past decade .... These statements by people who cannot in any circumstances be suspected of exaggerating our achievements and capabilities are a further confirmation of the successes of the Soviet Union's rapid economic development. 195/

The *New York Times* view of the impact of Mr. Dulles' testimony notwithstanding, the debate continued domestically as well. However, the Agency became less vocal on the subject as public discussion in the United States became intertwined with the 1960 presidential campaign. "Growthmanship" had become a part of the political language, and true to its tradition and its charter, the Agency could hardly continue with public contributions that might provide political ammunition to either side. So effectively did the Agency mute its voice in this respect that when CIA's only press conference took place in 1964,* much of the press expressed great surprise at the Agency's surfacing itself as involved in the analysis of the Soviet economy.

Perhaps the most important fact that emerged from these events, so far as the history of economic intelligence in CIA is concerned, was the "arrival" of economic intelligence as a significant part of the national intelligence mission. In responding to the Soviet boasts, the Director, without predicting that the Soviet Union was about to "overtake" the United States -- as he was alleged to have done -- had brought to the attention of the public

* See Volume II, Chapter IV.

a hitherto not generally recognized facet of the Communist challenge. ORR's product was thereafter more widely recognized as significant and authoritative, and the demands from policymakers for ORR support rose to new heights.

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Attachment A

CENTRAL INTELLIGENCE AGENCY
Washington, D.C.

GENERAL ORDER [redacted] 13 November 1950

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SUBJECT: Organization

I. Office of National Estimates

1. The Office of National Estimates is established as an additional Office of the Central Intelligence Agency.

2. Dr. William L. Langer is announced as Assistant Director for National Estimates.

II. Office of Research and Reports

1. The designation of the Office of Reports and Estimates is changed to Office of Research and Reports.

2. Mr. Theodore Babbitt will continue as Assistant Director.

WALTER B. SMITH
Director

DISTRIBUTION: 3

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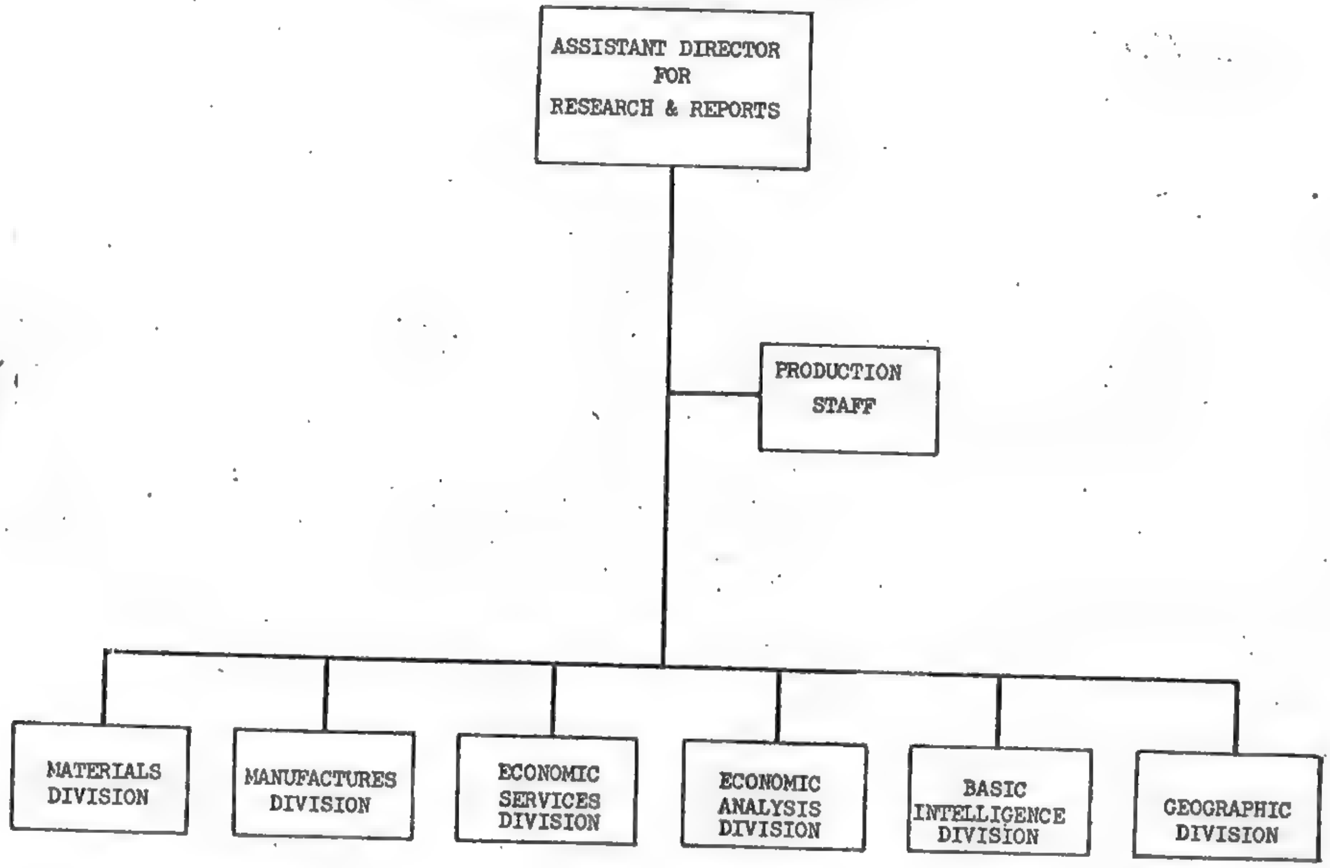
OFFICE OF RESEARCH AND REPORTS



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Attachment B

CIA REGULATION NO. 70

19 January 1951

OFFICE OF RESEARCH AND REPORTS

I. MISSION

The Assistant Director for Research and Reports is charged with conducting intelligence research and producing intelligence reports (excluding scientific intelligence) under the approved Agency intelligence production program.

II. FUNCTIONS

The Assistant Director for Research and Reports shall:

A. Formulate and recommend the intelligence research program for his Office.

B. Conduct intelligence research and produce intelligence reports in specified fields of common concern, and in other fields as directed.

C. Coordinate the research and reporting activities of Governmental and other agencies in specified fields of common concern and in other intelligence fields as directed.

D. Provide for centralized allocations and coordinaton of the National Intelligence Surveys program.

E. Provide centrally for the production and coordination of foreign geographic and map intelligence, and for the procurement and preparation of intelligence maps.

F. Formulate and establish the necessary requirements for intelligence information for his Office for transmittal through appropriate channels for collection action.

G. Provide CIA collection offices and other governmental collection agencies with evaluations on their reports which fall within fields of intelligence research and reporting responsibilities of his office.

H. Provide graphic support for the Director of Central Intelligence, the Assistant Director for Scientific Intelligence, the Director of Training and other Agency officials, as necessary.

I. Perform such other functions related to intelligence research or reporting as may be directed.

ATTACHMENT C

The preoccupation with the economy of the Soviet Union during the 1950's was such that the various branches of the Industrial Materials, and Service Divisions were organized to conform, insofar as practical, with the ministerial structure of the Soviet Union. Thus the following branch breakdown was proposed by [redacted] for the Interim T/O of these three divisions: (b)(3) (b)(6)

INDUSTRIAL DIVISION	MATERIALS DIVISION	ECONOMIC SERVICES DIVISION
- Military Equipment Branch	Ferrous Metals & Minerals Branch	Transportation Branch
- Production Equipment Branch	Non-Ferrous Metals & Minerals Branch	Communications Branch
- Ammunition Branch	Special Commodities Branch	Labor & Manpower Branch
- Capital Goods Branch	Petroleum Branch	Trade & Finance Branch
- Aircraft Branch	Solid Fuels Branch	Electric Power Branch
- Ship-building Branch	Chemicals Branch	Construction Branch
- Industrial Projects Branch	Food & Agriculture Branch	Economic Organizations Branch
- Electrical Equipment Branch		

Strategic Division, the interim organization for processing special intelligence, contained branches with substantive responsibilities similar to these divisions, each with sections roughly equivalent to the above-listed branches.

The Economic Analysis Division was more of a catch-all, including several branches assigned to the economic defense activity, that is, Economic Warfare Branch, Export Control Support Branch, Target Selection Branch, and Composite Reports Branch. [redacted]

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ATTACHMENT D

NSCID 15
Corrected
June 22, 1951

NATIONAL SECURITY COUNCIL INTELLIGENCE DIRECTIVE NO. 15

COORDINATION AND PRODUCTION OF FOREIGN ECONOMIC INTELLIGENCE

Pursuant to the provisions of Section 102 (d) of the National Security Act of 1947, as amended, the National Security Council hereby authorizes and directs the Central Intelligence Agency to perform the following functions with respect to foreign economic intelligence relating to the national security:

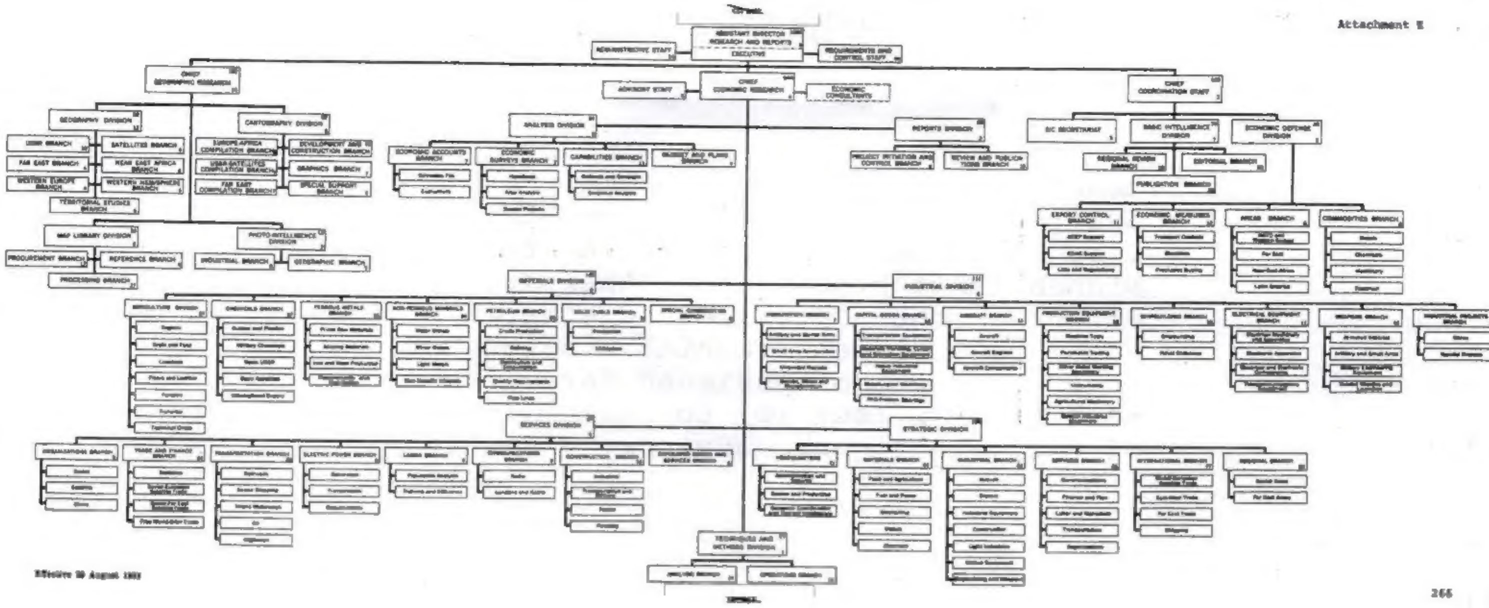
1. Maintain a continuing review of the requirements of the United States Government for foreign economic intelligence relating to the national security, and of the facilities and arrangements available to meet those requirements, making from time to time such recommendations to the National Security Council concerning improvements as may require National Security Council action.

2. Insure through regular procedures that the full economic knowledge and technical talent available in the Government is brought to bear on important issues involving national security, including issues on which assistance is requested by the National Security Council or members thereof.

3. Evaluate, through regular procedures, the pertinence, extent, and quality of the foreign economic data available bearing on national security issues, and develop ways in which quality could be improved and gaps could be filled.

4. Conduct, as a service of common concern, such foreign economic research and produce such foreign economic intelligence as may be required (a) to supplement that produced by other agencies either in the appropriate discharge of their regular departmental missions or in fulfillment of assigned intelligence responsibilities; (b) to fulfill requests of the Intelligence Advisory Committee.

Attachment E (b)(3)



Effective [illegible] August [illegible]

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